

MARCH 1959

# The Mortgage Banker

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MBA Goes to Washington: Every year the principal government agency officials and representatives of MBA get together to exchange ideas and this year there were more to exchange than usual. At the meeting: Above, left, Philip N. Brownstein of VA, MBA President Walter C. Nelson, HMPA Administrator Norman Mason and MBA Counsel Samuel E. Noel. Upper right, Henry C. Wollich of the Treasury, Don Peabody of The White House, Hanchel Greer, Nashville and Miles Coleen. Lower left, Roger W. Jones, deputy director, Bureau of the Budget, MBA Vice President I. B. Bass, Sam R. Broadbent of the Budget Department, and Philip Smith, Washington. Lower right, Aubrey M. Chole, Dallas, FHMA President J. Stanley Baughman, MBA Vice President Robert Thorne, and Guy E. Noyes of the Federal Reserve (See page 35).



in this issue — — — — —

**ON MAKING INDUSTRIAL MORTGAGE  
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LOANS ★ A CENTRAL MORTGAGE BANK**



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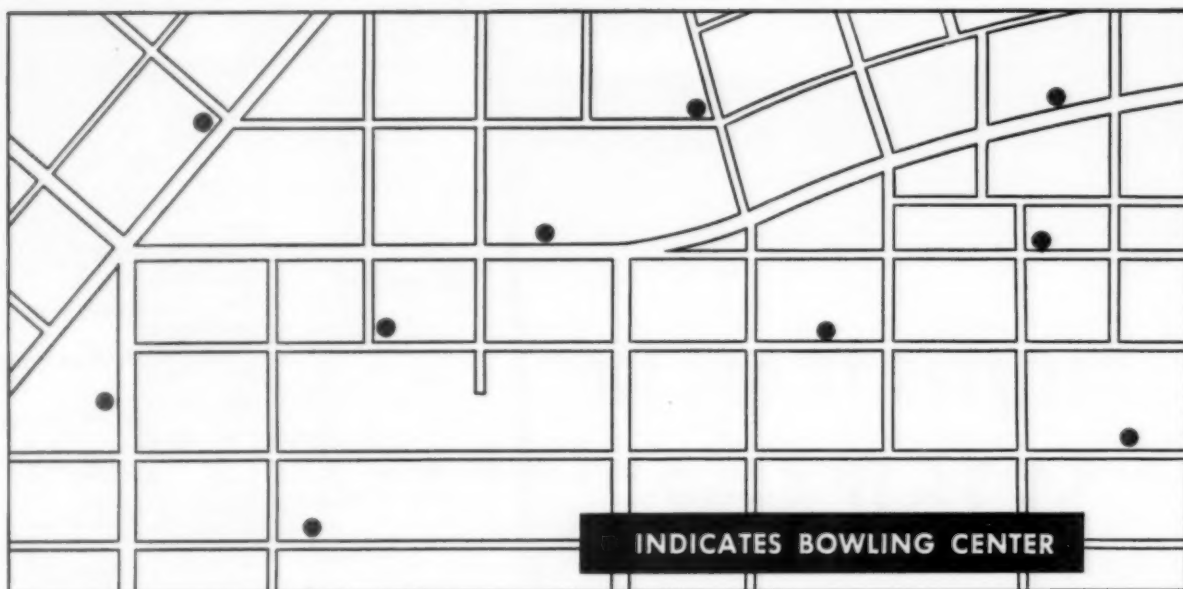
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# Mortgage

be made only when a detailed analysis has proved that a definite need for additional lanes exists. In such cases the population of the shopping area should be well in excess of 1,000 per lane for all existing and proposed establishments.

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## THE MBA CALENDAR

March 18-19, Mortgage Servicing Clinic, Penn-Sheraton Hotel, Pittsburgh

March 23-24, Southern Mortgage Conference, Peabody Hotel, Memphis

May 4-5, Eastern Mortgage Conference, Hotel Commodore, New York

May 21-22, Mortgage Servicing Clinic, The Biltmore Hotel, Los Angeles

May 25-26, Western Mortgage Conference, Multnomah Hotel, Portland, Oregon

June 21-27, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 28-July 4, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 26-August 1, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 2-8, School of Mortgage Banking, Course II, Stanford University, Stanford, California

September 21-24, 46th Annual Convention, Hotel Commodore, New York

## CALENDAR OF PRESIDENT NELSON

### MARCH

5, New Jersey MBA, Newark; 10, Arizona MBA, Phoenix; 12-14, California MBA, San Diego; 18-19, Mortgage Servicing Clinic, Pittsburgh; 23-24, Southern Mortgage Conference, Memphis.

### APRIL

8-11, Texas MBA, Dallas; 20, Birmingham MBA; 21, Little Rock MBA.

### MAY

4-5, Eastern Mortgage Conference, New York; 14-16, Florida MBA, Ft. Lauderdale; 21-22, Mortgage Servicing Clinic, Los Angeles; 25-26, Western Mortgage Conference, Portland, Oregon; 27, Portland Real Estate Board.

### JUNE-JULY

21-27, School of Mortgage Banking, NU, Courses I and II, Chicago; June 28-July 4, School of Mortgage Banking, NU, Course III, Chicago.

### JULY-AUGUST

July 26-August 1, School of Mortgage Banking, Course I, Stanford University, Stanford, California; 2-8, School of Mortgage Banking, Course II, Stanford University, Stanford, California

### SEPTEMBER

21-24, 46th Convention, Hotel Commodore, New York.

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GEORGE H. KNOTT, Editor

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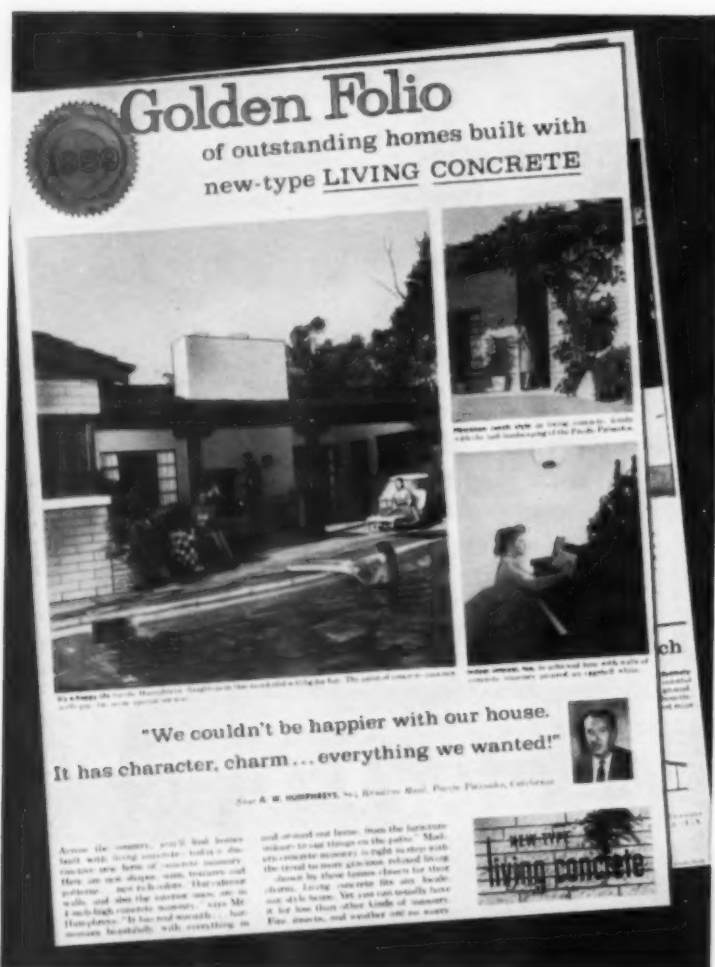
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# HOW IT LOOKS FOR BUSINESS AND HOME BUILDING IN 1959

*Conclusion: it looks good. The prospect is for 1,200,000 housing starts and maybe even more. But some hard decisions are ahead, decisions which will have the greatest impact on home building. A firm stand should be taken by home builders against further federal inroads into the private sector of housing markets—a desire which, as of the moment, does not seem too close to realization in view of the liberal ideas being incorporated into housing legislation this year.*

NOT often have we entered upon a new year with such unanimity of informed opinion on the outlook for economic activity. The outlook for 1959 and immediately beyond is indeed bright, and justifiably so. The American economy has shown an amazing resiliency by snapping back from the deepest recession in the post-war years in near-record time—as recessions are measured—to achieve new high levels of total output of goods and services by the end of 1958.

In the process of decline and recovery we have learned many things about our economy. We have learned that prices and wages do not necessarily decline in recession; that disposable personal income can be maintained at high levels and, as a

consequence so can consumer expenditures; that corporations need not reduce dividend and salary payments in the face of declining profits; that nondurable goods and service industries can continue strong as durable goods industries falter; that personal savings can rise dramatically in recession and continue upward in recovery. These and other elements are testimony to our ever-changing, dynamic economy—an economy which will soon be producing goods and services at an annual rate of \$500 billion.

The road up to this staggeringly high figure—which is likely to be achieved before 1960 is very old—will not be entirely smooth, nor, on the other hand will it be very bumpy. So

far, the recovery from 1958 lows has been broadbased and vigorous. The upturn in housing has contributed importantly to the general economic turnaround, with a rise from an annual rate (seasonally adjusted) of around 900,000 starts last spring to about 1.3 million this winter. Increased outlays by both Federal and local governments to new highs have been significant factors in recent economic expansion. Moreover, business men have markedly reduced their liquidation of inventories as consumers have increased their expenditures to record levels.

It is important to note that increases in activity since midyear have been accompanied by relatively stable prices so that our gains in output

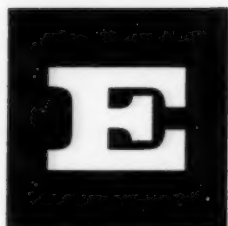
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By GROVER W. ENSLEY

*Executive Vice President, National Association of Mutual Savings Banks before NAHB Annual Convention*

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have been in real terms. In the industrial sector, where the earlier decline in economic activity was centered, physical output has recovered rapidly to regain four-fifths of the pre-recession peak level. This means that since early spring, production from the nation's factories and mines has increased 16 percentage points as measured by the Federal Reserve Board, following a decline of 20 points from early 1957. Gains have been widespread in both durable and non-durable goods industries. Output in most lines of durable goods, however, has not yet recovered previous peaks, in contrast to output in many non-durable goods sectors, which has already achieved new highs.

A review of 1958 economic events, no matter how brief, is hardly complete without reference to the record flow of net new savings into financial institutions. This has permitted the financing of the increased volume of new housing, as well as the record spending by state and local governments, and continued large corporate borrowing. As noted earlier, savings flows have risen through both recession and recovery, reflecting a willingness and a need on the part of consumers to lay aside a portion of income through all phases of the trade cycle.

Past business cycle experience also favors further economic expansion beyond 1959. Studies have revealed that in most cycles the expansion phase usually continues for about 30 months. If we measure our present recovery as beginning last May, it is less than one year old—clearly, still pregnant with potential growth. This growth will not be realized automatically, however, simply on the basis of past statistical evidence. Each new cyclical change carries with it its own problems and its own challenges. Within any overall growth pattern, moreover, some sectors and some areas will lag behind others or decline temporarily because of special factors.

The rate of expansion so far, for example, has still left us with over four million unemployed persons as of December. In terms of specific labor market areas, latest Government surveys (November, 1958) show some 83 so-called surplus areas—that is, areas with 6 per cent or more unemployed. The likelihood is that unemployment will rise further in

*"Credit will be less readily available than in 1958, terms will be more restrictive, borrowers more carefully screened, and commitments harder to come by. Shifts will occur among various types of mortgages, and among various housing sectors, but overall, the volume of mortgage credit should be ample to support at least 1,200,000 starts. The flow of savings to mutual savings banks and other financial institutions should continue large, and demands for capital funds by corporations may decline. Government action to stimulate housing markets, moreover, may be expected in the event a decline does appear imminent."*

January and February, perhaps to over 5 per cent million persons. While such an increase will be attributable to the operation of normal seasonal factors—particularly in the construction and agricultural sectors—rather than to any real deterioration in economic activity, we cannot afford to be complacent about such a high level

of unemployment. The general stickiness of recovery in this area, reflecting productivity and labor force factors noted earlier, is one of our main economic problems for 1959 and beyond.

Some observers feel that the home building sector is one of the areas in which a decline may occur this year—notwithstanding general economic



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growth, because of the reduced availability of credit, upon which it is so dependent. The more pessimistic analysts are suggesting a drop in the second half of 1959 to little more than 1 million units, compared with the 1.3 million rate recently reached. I would be surprised if less than 1.2 million units were started this year and not at all surprised if there were more.

To be sure, credit will be less readily available than in 1958, terms will be more restrictive, borrowers more carefully screened, and commitments harder to come by. Shifts will occur among various types of mortgages, and among various housing sectors, but overall, the volume of mortgage credit should be ample to support at least 1.2 million starts. The flow of savings to mutual savings banks and other financial institutions should continue large, and demands for capital funds by corporations may decline. Government action to stimulate housing markets, moreover, may be expected in the event a decline does appear imminent.

*"Any action short of establishing interest rate flexibility for government-guaranteed mortgages, however, will still leave basic problems in housing markets unsolved. As long as ceiling rates are maintained on FHA and VA mortgages, the impact of changes in credit conditions will fall more heavily on mortgage borrowers and lenders, and on housing markets generally, than on other sectors of the economy. This means that builders will continue to operate in unstable markets, as prospective home buyers are precluded from competing freely for limited capital, and as lenders shift their funds in accordance with changing relationships between fixed government-aided mortgage interest rates and free interest rates on other types of investments."*

Any action short of establishing interest rate flexibility for government-guaranteed mortgages, however, will still leave basic problems in housing markets unsolved. As long as ceiling rates are maintained on FHA and VA mortgages, the impact of changes in credit conditions will fall more heavily on mortgage borrowers and lenders, and on housing markets gen-

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of investments.

Frankly, with overall prospects for continued economic gains so encouraging, I am more concerned about the development of imbalances in specific economic sectors other than housing. Common stock prices, for example, have risen rapidly to uncomfortably high levels, hard to justify on the basis of current earnings and dividends. Common stock yields are, in fact, well below those on high grade bonds. Only rarely has this been the case in the past half-century. In my judgment, the market has exaggerated inflation prospects for the near future. A shakeout in the stock market based upon a re-evaluation of the inflation potential and upon more realistic returns for investors, may have repercussions on other sectors of the economy.

In the steel industry, important labor contract negotiations are scheduled for this summer. Failure of management and labor to reach agreement may result in long and costly strikes. Such a development in one of the nation's basic industries will be a serious blow to maintaining balance in the nation's economic machine. In any event, the results of the steel industry negotiations will set a pattern for labor contracts in other industries.

Another important question mark on the domestic economic scene lies in the area of national fiscal discipline. The President has outlined a Federal budget in balance for fiscal 1960 at around \$77 billion. This represents a proposed reduction in spending from fiscal 1959 of over \$2 billion and an increase in receipts of perhaps \$10 billion. Few believe that Federal spending can be contained within the President's estimate, but, even at a higher figure, a balanced budget may be achieved as tax receipts are boosted by a strong business recovery. Fiscal discipline is essential if the nation's long-run economic health is to be maintained. At the least, this means living within our income during a period of economic expansion such as is anticipated for 1959 and 1960.

On the international scene, recent financial developments hold important implications for the United States economy in the immediate years ahead. The European nations have demonstrated a willingness to accept fiscal and monetary discipline through

currency convertibility and devaluation. These moves will make it harder for American exporters to sell high-cost products abroad. Already there is evidence that we have been pricing ourselves out of foreign markets. U. S. exports declined markedly in 1958, accompanied by gold outflows in excess of \$2 billion.

The apparent determination of European nations to repudiate inflation as a way of life reinforces our own need to combat this economic scourge. After all the potential threats to full and sustained economic recovery are reviewed—and there are assuredly more than I have touched upon, including the stickiness of unemployment, lagging capital expenditures by business, lower farm incomes

—the main economic threat and challenge which emerges is inflation. The question has been asked by many—by sophisticated as well as lay observers of the American economic scene—whether our new prosperity can long continue without engendering new inflationary pressures.

Many have answered no including some among the sophisticated, and have added that this prospect is not necessarily unwelcome. My answer on both counts is an emphatic yes—that we can have prosperity without inflation, and, indeed, that we must have, because the two are necessarily incompatible. For I submit that the creeping variety of inflation cannot long be limited to this pace, and as it builds to a gallop develops the

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imbalances, the hardships, the inequities, which result ultimately in economic collapse. The American people must be convinced that inflation is not inevitable. Resignation to inflation—for the longer term as well as the immediate years ahead—will in itself set off actions building inflation further into the system and bringing about the very dangers we fear.

Businessmen, labor consumers, and governments must be united in their determination to develop and support programs and policies that are not inflationary. Indeed, in the coming year inflationary fears hardly seem justified. Relative price stability appears to be a good bet in 1959. Our plant capacity and labor force are still not being fully utilized; productivity is increasing significantly; farm crops are abundant; and foreign competition for American markets is keen.

In the longer run, as well as in the short run, homebuilders have a direct interest in combating inflation, because the availability of mortgage credit—the lifeblood of home building—depends ultimately on the volume of long-term savings. Thrift is one of the bulwarks of our American economy and must be encouraged as the fundamental source of financing for residential building and other capital formation. So long as inflation motivates the actions of consumers and investors, so long will it be difficult to increase the flow of savings and hence of residential mortgage funds.

At times, in the short run, homebuilding may seem to suffer at the hands of anti-inflationary monetary and fiscal policies, but only through such policies can the supply of mortgage credit be increased in the long run. The Joint Economic Committee has stated the problem well: "Public policies must face up squarely to the problem of inflation. Restraining inflation never has been and never will be an easy job. It requires making hard decisions in public policies to contend with problems which may become increasingly complex."

Hard decisions and keen judgment are necessary, also, on the part of the homebuilding industry. This means striving continuously to hold costs down, increase efficiency, and produce a quality product for the consumer's

dollar. It means, also, that industry leadership must encourage sound policies on the part of our Federal housing and mortgage agencies, and of our Federal legislators concerned with this area of activity. One way in which, it seems to me, the home building industry can serve their own interest, and the public interest as well, would be to oppose vigorously further Federal inroads into the private sector of housing markets. This means standing firmly against direct government lending, including the expansion of FNMA's activities to support sub-market mortgage interest rates established under other Federal programs. Making Federal money directly available to housing markets through FNMA will further increase the al-

ready large Federal deficit, add to inflationary pressures, and ultimately threaten the existence of the private homebuilding industry. This would indeed be a heavy price for all of us to pay for a temporary stimulus to housing markets.

It cannot be stressed too strongly that housing credit policies must be established within the framework of the nation's overall monetary and fiscal policies, and not in an economic vacuum. In this kind of a setting, it may well be that in some future periods the long-run public interest as well as the private homebuilding interest, will call for temporary restraints on housing demands. Federal housing instrumentalities cannot encourage all out expansion under all conditions if

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the nation is to meet successfully inflationary pressures and preserve the purchasing power of the dollar. Sober reflection will, I am sure, convince us all that self-interest dictates the sacrificing of temporary short-term economic gain, for permanent, long-term economic stability in a setting of sustained economic growth.

## Inflation Showdown Not Too Far Away

The nation has suffered three rounds of inflation in the post-World War II period, which together have raised overall living costs by 60 per cent and have reduced the dollar's buying power by nearly two-fifths in a period of little more than a decade.

This has intensified the growing conviction that the nation can no longer temporize with the inflationary forces in the economy, and has been dramatized by the President's decision that the time has come for a showdown. His drive to stabilize the buying power of the dollar is being fully supported by the life insurance business, which has long warned the public of the growing inflationary problem and of its threat to the welfare of the people and the future progress of the economy.

The most recent inflationary push, which started early in 1955 and had boosted the cost of living by 8 per cent when it hit its peak last July, differed markedly from the two previous ones in that it lacked their wartime background and in the particularly disturbing fact that it drove ahead in the midst of a recession. The stability of the overall cost of living index in recent months is due primarily to a dip in food costs, a duplicate of the two other levelling-off periods in the last decade. Other components of the cost of living have continued to move up, notably housing and the services.

This evidence of the strength and persistence of the inflationary pressures in the economy, combined with the inflation psychosis it has begun to breed, has aroused widespread concern abroad as well as at home over the future value of the dollar. The dollar's erosion to date has already victimized and brought hardship to the wage earner, the saver, and the

increasing millions dependent on a pension or other fixed income. Unless halted, it may also undermine the people's desire to save, and thus endanger the major source of the thrift and investment funds upon which the country's future growth and progress are so vitally dependent.

»» **FHA NOTES:** New homes of low and moderate price are generally selling somewhat faster than a year ago, says FHA. On the average,

three-fifths of all new-home sales are in the \$11,600 to \$17,900 price bracket. Lower-priced homes account for 20 per cent of all sales—5 per cent more than this time last year . . . More than \$85½ million in mutual mortgage insurance earnings has been distributed by FHA to some 700,000 home owners who have completed their payments . . . Well over 5½ million families are now living in housing financed with FHA mortgages.

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## ► Opportunities for Lenders in Industrial Mortgages

*There is a great and profitable field of lending in industrial mortgage loans yet many mortgage banking firms—probably even a good majority of them—are overlooking the possibilities and the opportunities which they offer. There are undoubtedly a lot of reasons why, not the least of which is that this type of lending requires highly specialized techniques and skill. The what-why-and-how of making industrial mortgage loans is set forth here by a mortgage man who made many of them and knows what an important phase of the business they can be.*

**T**ODAY, more than ever before, the institutional investors which provide most of the funds for the mortgage banking fraternity are clamoring for conventional loans. The insured and guaranteed loan field with its lower yields, discounts, and problems created by discounts have led the investors to reduce their allocation for these types of loans. On the local scene the mortgage banker is face to face with competition from local institutions, including the savings and loan associations, particularly in the residential field but to an ever increasing extent in the commercial and apartment lending areas. The average mortgage banker is finding that production of conventional loans satisfactory to his investors is failing to meet the goals set. The savings and loan associations, by their very nature, give a borrower faster service (even same-

day service), larger mortgage amounts and much greater flexibility not only in prepayment options but also in other loan terms. The mortgage bankers, in attempting to compete for the remaining volume of conventional loans which are still available to them find that competition from their fellow mortgage bankers assumes the aspect of a cutthroat business. Reduced commissions and other concessions made to borrowers to secure suitable residential and commercial conventional loans have reduced the attractiveness of doing this business to a point where the cost of each individual loan is becoming prohibitive.

On the other side of the coin there is evidence that some investment officers charged with the responsibility of safeguarding large sums of fixed value investments are becoming disillusioned with the public offerings of

bonds and preferred stocks sold with great aplomb over the phone. When unwrapped, the merchandise often displays a slight but significant difference from the proffered article.

In the face of this situation many mortgage banking firms are overlooking a profitable alternative area in which to secure satisfactory loans for their principals while building their own servicing portfolio, and that is industrial mortgage loans. Why they overlook it varies from office to office. Some firms feel they are not in an area which could support an industrial loan department; others lack the qualified personnel to negotiate and present such loans adequately.

In answer to the first, any city which supports an active mortgage banking firm has within its trading area sufficient opportunities for industrial loans to warrant a mortgage

By **PAUL G. REYNOLDS**

*Vice President, Dovenmuehle, Inc., Chicago*



banker consulting with his investors as to their interest in acquiring this type of investment. Overcoming the second objection would require a management policy decision to enter the industrial loan field under a well conceived program and the subsequent hiring or training of the proper personnel.

The first line of investigation as to the feasibility of such a program might well be with the people in the home offices of his present investors who are charged with the review and acquisition of such loans. Here, there is a wealth of information and some rules of thumb which the novice industrial mortgage man can use as guideposts. A second source of information is other mortgage bankers already in the field, perhaps in another locale. While they may expect to place referred loans for their own account, valuable experience can be gained as to their methods of operation through working with them on a brokerage basis.

The literature in the field is quite limited but there are a few treatises dealing with this field of industrial loans. The MBA School of Mortgage Banking devotes some time to it, but neither of these sources—the course nor the text book used in the course—can provide more than the theory or working formula. An academic approach in any field cannot substitute for practical experience and exposure to actual cases. As a starting point, the chapter on industrial loans in *Mortgage Banking* by Pease and Cherrington, the MBA text, will make interesting reading.

If a preliminary investigation indicates there is a market for industrial loans with the firm's present outlets and a good potential for even an occasional loan, consideration must be given to the needed tools for such a program.

Leads to industrial loans most often come from professional people who will expect to deal with well-informed, competent individuals in the lending field. It is therefore necessary that trained, qualified personnel be on hand before embarking on a campaign of soliciting industrial loans.

The two alternatives in acquiring trained personnel, as in anything else, are in hiring those who already have the knowledge or training your own

staff. The easiest and most productive way, of course, is to hire somebody; but well-versed industrial mortgage men are hard to find and training may be the only answer.

The requisites for a prospective industrial mortgage man should include basic accounting, familiarity with credit and statement analysis, a genuine liking and aptitude for the overall field of finance, and a knowledge of appraisal techniques. He must have the ability to meet, on equal terms, the top management of the potential borrowers as well as the upper echelon in the investment departments of the investors.

Starting an industrial loan program will be a slow process. There are no cut and dried rules promulgated by a government agency that can be followed. There is a long history of successful credit extension by lenders who exercised common sense and refined the elementary principles of investment practice to build a foundation on which a beginner in the field can rely. Only when these basic procedures and precepts are firmly in mind, has the time come for the next move.

If the foundation has been laid for industrial lending, where do the leads and opportunities come from to enable the company to test its newfound abilities? The sources are many and varied. Banks, where long term mortgages are *verboten*, are anxious to have competent, non-competing lenders to whom requests for such funds can be referred. Industrial loan requests to the home office of principals find their way back to the correspondent if in the past he has demonstrated his ability to screen, negotiate, and present submissions of this type. Accountants familiar with the needs of their clients are often asked to investigate sources of money. Direct mail and other advertising media can make the chief financial officers of firms in the area, as well as those sources mentioned above, aware of the abilities and activity of a company in the industrial lending field. And, finally, the best source of all is the recommendation of the mortgage banker by satisfied customers.

Among what type of companies will the mortgage banker find the most likely prospects for industrial loans? While it is true that many blue chip companies are today building or leas-

ing buildings in smaller communities and cities where the mortgage banker could be assured of receiving prompt and affirmative responses from his principals if he offered these loans, the competition for this type of loan is quite intense. There are investors who follow the movements of these major companies very carefully and stand prepared to offer terms which are unacceptable to most insurance companies. These individuals, pension trusts, and other non-regulated investors are willing to sacrifice a normal yield in return for the high investment quality of the lessee and they are sufficiently well-informed to be able to deal without the services of the mortgage banker. Although the occasional deal might be made with the blue chips, it is probably in the sphere of the smaller industrial companies with a net worth up to \$10,000,000, a good earnings record, and a stable history of operation that the mortgage banker can expect the greatest return.

In dealing with these smaller companies, there are many ways to strengthen the desirability of a loan through restrictive covenants and additional security. The latter may be gained by the pledge of life insurance on the principal owner of the building, personal guarantee by the principals, guarantee by a parent company or affiliated organization, accelerated payment in the early years of the loan and the pledging of other assets.

Restrictive covenants that require the maintenance of net worth and working capital, a prohibition on paying excessive dividends or salaries to owners, a restriction on the purchase of excessive fixed assets, and an agreement not to pledge the current assets as security for current debt all have their place in the negotiation and are usually required.

In effect, these bond-type restrictions will help convince a lender that he has not only the real estate as security but the earning power and other fixed assets to look to as a means of providing funds to repay the debt. Some prospective borrowers may object to some of these restrictions, claiming them to be an unwarranted interference in the operation of their business. If this claim is true, the covenants and restrictions have not been properly drawn because, in ac-

tuality, they should be only a statement of good business principles which, if the borrower intends to repay the debt and maintain the business, would be followed in any event.

What is it that makes a good industrial loan—one that will appeal to the sophisticated lender sitting in the home office reviewing such offerings—perhaps every day of the week? If the investment committee decides the company's financial affairs are favorable, the quality of management is of high caliber, the product one for which there is a dynamic demand, the production efficient, and, finally, the plant itself a saleable piece of real estate, there is no doubt—the loan is good! And it will appeal to the lender—sophisticated or not.

First and foremost in any loan committee's deliberations is the fact that loans of this nature are based almost

can supply to a prospective lender which tell most of the story. The first to consider is the latest annual audit report generally prepared by a certified public accounting firm and usually containing, in addition to a balance sheet and earnings statements, a flow of funds statement, a breakdown of operating expenses, and a comparison with the previous year's results. When subjected to proper analysis it gives a good preliminary picture of the company as an operating entity from a lending standpoint.

The balance sheet reflects the net worth of the company and its asset make-up both of which are useful in determining the maximum amount of loan. A mortgage loan in excess of 50 per cent of the net worth is very rare, particularly among small industrial companies. The ratio of fixed assets to net worth is another ready

the upper part of the industry averages? Has the company shown a trend toward increasing its profit margin, and, lastly, are there any excessive items of expense which would point to present management's draining of the company resources for non-business purposes? These questions and many others can be used in the preliminary screening to determine whether a loan is even worthy of being offered to an institutional investor or whether it should be rejected immediately.

If the questions asked above have been favorably answered and there is confidence that the earning power of the company will be sustained, it is generally prudent to test the management's planning by examining forecasts of cash flow, balance sheets, and profit statements. A well-managed company will have some form of blue-



*"In today's market for industrial mortgages, loan terms are becoming progressively more favorable for the lender. Interest rates range from  $5\frac{1}{4}$  to  $6\frac{1}{2}$  per cent and may go higher. Rarely will the term exceed 15 years even on a new building, unless there is a non-cancellable lease for a longer period with a major national credit. Generally the loan amount will not exceed 60 per cent of the appraised value although  $66\frac{2}{3}$  per cent is possible. Prepayment options in the past several years have been gradually strengthened until now they resemble very closely the call features of public bond issues."*

entirely upon the demonstrated ability of the borrower to repay the debt, when due, from earnings which follow a consistent and preferably increasing pattern. The value of the real estate as such is, in most instances, used only to qualify the loan as a legal mortgage. A prime industrial building, well-suited for many possible users, but without a qualified occupant, either as owner or lessee, would not even be discussed by 99 out of 100 investors. On the rare occasion when one will, a loan of 50 per cent of the established value would be generous indeed.

Since the emphasis is on credit, what are the criteria used to determine borrowing ability of an industrial company? There are several documents of paramount importance which every well-managed company

reference to maximum amount available as well as the overall credit-worthiness of the firm. As the fixed asset amount approaches net worth, a danger signal flashes in the mind of any investment officer. Other balance sheet items and ratios which will affect the evaluation of a particular loan are the relation of a company's current assets to its current liabilities, cash to current liabilities, inventory to current assets, and total debt.

As important as it is, the balance sheet represents a single point in time, and it is from the operating statement that the continuing record of the company is derived. Not just for the current year but over the preceding ten years, has the company consistently shown substantial profits in relation to the proposed debt? As a percentage of sales, have these earnings been in

print for future operations and will supply them readily. It must always be kept in mind, however, that here one is dealing in futures based on assumptions and therefore beware.

As the final test in the financial review, coverage of the loan payments must be demonstrated as in any other type of loan. Depreciation allowances, net profits and, if a new plant to replace existing facilities is under consideration, present rent or plant operation cost can be considered as cash available for loan payments. As a point of caution, it should be stated that, currently, depreciation allowances while representing part of cash flow, are actually understated; and any company not using what there is to keep abreast of a changing economy could well be an early casualty.

*(Continued on page 43, column 1)*

# The Philadelphia Story

**T**HERE is today a new spirit in Philadelphia, a spirit created by the remarkable extent to which the business and professional leadership in the city is participating in the most direct and personal way in creating a new and exciting future for the venerable city.

The greater Philadelphia movement is perhaps the most effective national example of a private civic leadership organization with a board of directors which is a roster of the leaders of business and industry. Another quasi-public corporation, the Food Distribution Center, is doing what many of our cities have unsuccessfully aspired to do: namely, to create a new wholesale fruit and vegetable and general food center. Its



Richard Graves

president is R. Stewart Rauch, Jr., president of the Philadelphia Saving Fund Society, with an equally impressive directorate. The Old Philadelphia Development Corporation is a private corporation organized to put the weight of civic leadership behind Philadelphia's expanding redevelopment program. Its president is William Day, chairman of the First Pennsylvania Banking and Trust Co.; its directors are leaders in our city. My corporation, Philadelphia Industrial Development Corporation, is itself a remarkable partnership between Mayor Richardson Dilworth and his administration on the one hand and the Greater Philadelphia Chamber of Commerce on the other—what better evidence of the existence of the "New Philadelphia." The Greater Philadelphia Chamber of Commerce, the Citizens Council on City Planning, the Citizens Budget Committee are remarkable in Philadelphia only to the extent that having commanded the participation of the

top level of the community leadership, they get things done.

Having noted thus with enthusiasm of the leading role Philadelphia bankers are playing in facing up to the problems of the city and by way of getting to the subject of this paper, I must in all honesty confess that when they return to their banking offices, they take up more traditional attitudes and postures when I ask them for an industrial mortgage loan. If it would not be disrespectful to do so, I would be compelled to state that FHA and other forms of federally guaranteed loans have conspired to make it difficult if not impossible to get mortgage credit for industrial plants for all but the bluebook of American industry. To this central problem I must return and mention it now only to reassure you that the Philadelphia revolution has not extended to the senior mortgage officers of the banks.

My concern is with the industrial economy of Philadelphia. The city is and historically has been one of the great industrial complexes of the nation. Using the standard industrial classification, Philadelphia has the most diverse industrial structure of any city in the nation, having within its limits more than 85 per cent of the classified categories of industry.

In recent years, the same trend which is characteristic of other great industrial cities in the East and Middle West has turned up in Philadelphia: most of the new plants which have come into the area have been located in the suburbs rather than in the central city, and to a considerable extent such industrial relocation within the area as has taken place was most commonly a relocation from the city of Philadelphia to the suburbs.

If we disregard for our present purposes such industries as have succumbed to the siren song of the Governor of North Carolina, we might also put aside the debatable impact of such matters as municipal taxes, labor

unions, and the like. What remains is the hard and incontrovertible fact that the industrial areas of the old industrial cities like Philadelphia are no longer efficient in terms of the requirements of modern industry. We are and have been a city of congested industrial areas, of multi-story buildings without reasonably adequate truck-docking facilities let alone off-street parking for automobiles. The dominant single factor in the industrial decline of these old industrial cities is the lack of space on which to build modern plants for efficient production.

In the absence of creative thinking and the will to implement an imaginative approach to the creation of new industrial areas within the city, it is not surprising that most new industrial plants have been built in the suburbs.

Suburbia stands up well under superficial examination. The green grass and the rolling hills are in striking contrast to the congestion of the city. The increasing availability of expressways, the thousands of acres of pleasant suburban homes, the appearance of a lower tax rate—all these are most attractive. Yet, at the risk of too sweeping a generalization, suburban industry sometimes too late discovers that adequate utility services are hard to come by, that rural fire and police service is seriously inadequate, that the immediately available labor supply is even more so and the turnover is higher, and interestingly (because the principal industry of the suburbs is still babies), the tax rate increases and will increase at an alarming rate. In fact, the only stable tax rate in the Philadelphia region is the tax rate of the city of Philadelphia because of its concentration of industrial and commercial valuation.

Our first effort has been to generate new and more adequate sites for industry, to use effectively such industrial land as now exists, and to create new industrial sites in the older established areas.

# y of INDUSTRIAL Renewal



The city of Philadelphia owns something more than 1,200 acres of land suitable for industrial use which is no longer required for municipal purposes. By local ordinance a procedure has been established to transfer title to this land, without consideration, to the Philadelphia Redevelopment Agency, an instrumentality of the city which legally can negotiate for the sale and use of the land by industry. The ordinance requires that the land be sold for a price determined by independent competent appraisal, the proceeds from the sale to be used as a revolving fund to acquire additional industrial lands. This acreage is now in the process of being transferred, and our corporation already has industrial users for the larger part of it. We have also identified and made more effectively available all of the major private holdings of industrial land within the city. It should here be noted also that our corporation does not displace the industrial realtors, with which group we are working in full cooperation.

Very substantial additional indus-

*There's no lack of interest in urban renewal but industrial renewal hasn't captured the same degree of interest. It's just as important, maybe even more so from an economic viewpoint. The industrial areas of our older cities, such as Philadelphia, are no longer efficient in terms of the requirements of modern industry, says Mr. Graves—a fact which goes a long way to explain why most new urban plants are being built in suburban areas. But in the suburbs corporations find new problems, problems of a different kind. Here the man who is directing the effort tells what Philadelphia is doing in the field of industrial renewal. It is impressive evidence of the broad movement taking hold over the country to preserve the obvious advantages of urban areas.*

## By RICHARD GRAVES

*Executive Vice President, Philadelphia Industrial Development Corporation, before ABA National Credit Conference, Chicago*

trial land will be made available in Philadelphia as a result of large scale urban redevelopment projects. For example, one such redevelopment area in the southern part of the city will provide approximately 1,000 acres of industrial land cleared and ready for use. Thus, in the process of clearing blight, the city will create a considerable part of the industrial land which the economic health of the city requires for the future. Philadelphia no longer thinks of redevelopment as being useful only for creating new residential areas; it must be used also to provide the land on which to build the plants to provide the jobs for the people who will occupy those new houses. It is to be hoped that any new federal urban renewal legislation will give to industrial requirements a consideration equal to that of residential uses.

Perhaps our most unique contribu-

tion has been to propose the application of the redevelopment power in specific situations covering small areas, in connection with which there would be no subsidy of any kind. The proposal can be illustrated in the case of a major plant in Philadelphia which must expand on its present location or it will move out of the city and build a new plant. The existing plant site is surrounded by slum housing and very low grade commercial uses which fully qualify under the statutes of Pennsylvania as blight. The plant can and will pay the full acquisition cost of the additional area it requires, thus enabling the Redevelopment Agency to pay the full fair market value of the properties to be taken, as well as to assist in the relocation of the persons likely to be displaced, as the law intends. In this fashion, this plant, which involves hundreds of jobs, will be able to remain where it is; the

relatively high cost of the land will be more than offset because the company will avoid the high costs of relocation and removal of equipment; we will take another step toward the elimination of blight; and it is our view that the public interest and the general welfare will be well served. This unsubsidized application of the redevelopment concept to an area of a block or two may be more immediately useful and in the long run make as significant a contribution to the older industrial areas of the East as large scale redevelopment with federal aid.

Finally, with reference to the problem of space, we propose to extend

the concept of off-street parking to include industrial areas. Most cities now accept as necessary the use of the power of condemnation by a public parking authority to acquire land for off-street parking in the commercial or retail areas of the city. The need, however, is equally urgent to provide public off-street parking in the industrial areas; and it is our intention so to do in the older industrial areas of Philadelphia. In such situations, an underlying contract with the most benefited industry or industries would provide the underwriting needed to assure the integrity of the revenue bonds which the city would issue to finance the facilities.



### **Industrial renewal means that we can salvage the property values in these areas**

This effort to preserve the useful life of existing industrial structures by providing land for plant expansion, for truck-docking and off-street parking is a matter of enormous economic importance. It would be wasteful in the extreme if we did not salvage the property values which already exist in these old established industrial areas, and were instead to impose upon industry uniformly the very high cost of relocation in new plants as the only available alternative.

A number of factors are now at work in the city which are forcing substantial industrial relocation and which are factors in addition to the high relocation rate which congestion itself creates. The expanding system of expressways and their related feeder or access roads within the city is leading to the demolition and forced relocation of scores of industries which lie within these rights of way. A very large urban redevelopment project in the heart of the city will result in almost complete demolition and clearance of a very old but still substantially occupied industrial area, replacing it with a fine, new, residential neighborhood. This project, together with the state plans for Independence Mall, compels additional scores of industries to relocate. That is why more than 80 separate industries have sought the assistance of our corporation in locating new industrial sites in Philadelphia; and as the existence of our corporation becomes better known and

its purposes better understood, we find ourselves acquiring new industrial clients at the rate of four or five a day. In almost every case, the Philadelphia site we recommend and the general proposal we submit are in direct competition with sites and proposals submitted from the surrounding and more suburban areas. It begins to appear that we could win more often than we would lose if the competition were limited to the comparative merits of alternative sites. What concerns me most is that we may lose more often than we win when the competition turns on competitive financing.

The industrial suburbs are largely organized as industrial parks under a single ownership which is in a position to offer building financing. The firms which leave Philadelphia for these suburban industrial parks uniformly go into new industrial structures. Even when the firm involved has marginal credit, the ownership of the park is in a position to provide financing for the basic shell of the building, since the economies of the package which it offers and the multipurpose character of the structure are such that these industrial developers can take risks which the Philadelphia situation does not appear to allow.

About two-thirds of our industrial clients must be classified as local industries which have been in business for a good many years, have reasonable earning records, but rarely have

accumulated a sufficient net worth to qualify them as prime credit either for a mortgage loan or for a sale and leaseback. Yet if we may properly assume, and I think we must, that these small local industries are the seedbed of American industry, it is unsound both as a matter of economics and as public policy to allow them to die because their credit standing does not meet the rigorous standards imposed by our lending institutions. Because the same tests must be applied in the non-industrial phases of our economy, it may be that the situation I am describing is what has caused the Congress to create the lending phases of the Small Business Administration program and is now in the process of creating Small Business Investment Corporations as well. I speak without professional qualification in the field of finance, and yet I wonder if the implications of this new adventure of government into the lending field may not, in the long run, entail risks more grave than the risks involved in the mortgage loans I need. I am now compelled almost daily to recommend to some small industrialist that he consult the Small Business Administration. I find it noteworthy and it should be reassuring for the future of our private economy that most of these men are reluctant or unwilling to seek financial credits from a government agency, but in the end they may have no alternative.

We have able, experienced, and well financed industrial developers who can and will build new plant facilities for these small concerns but at a cost in rental which the more prudent of these business men will not pay. By working at it ourselves, and putting the elements of the transaction together with meticulous care, we are meeting the requirements of some of our firms in this fashion and can meet those of many more because we are here dealing with new structures. We get a more friendly hearing on a request for financing because the owner can more readily see the value in the real estate as well as look to the credit of the lessee.

This approach, however, does not solve the larger number of our problems either from the standpoint of the industry requiring a new location or the crucial problem of the city of Philadelphia. We are all well aware of the very high cost of new construction,

which is immediately reflected in the production costs of the company taking such space. We have in Philadelphia somewhere between 5-million and 7-million square feet of vacant industrial space. Admittedly, most of it is in the older loft or multi-story buildings. To the extent that such space does not require substantial reconstruction for a new occupant, it can be leased for about 25¢ or 30¢ a foot, a fraction of cost of space in new buildings. Such experience as we have had to date demonstrates also that very substantial rehabilitation, modernization, and reconstruction can be undertaken and still produce space at a substantially lower cost than new buildings. Such rehabilitation, when combined with our plans for providing

additional land for plant expansion and parking, is not only the best and cheapest way for these small marginal industries to get space; but, in addition, this approach halts the spread of blight and vacancy, sustains existing values, maintains the tax base of the city, and offers many other collateral benefits. Generally, these older structures are free of mortgage, have been largely written off as a matter of depreciation, and in many ways offer attractive opportunities for investment. However, so long as it is not possible to create a reasonable mortgage position either for the existing owner or a new buyer, the prospects of rehabilitation and re-use are not bright.



***One of the problems so far has been the difficulty of interesting private capital***

We have only now begun in any organized way to call upon the long term lending institutions of the city thoughtfully to examine this whole area of financing with us in the hope of finding some solution. It may be that by combining in a package some loans to companies with strong credit with some of these marginal credits and by

invoking some power of persuasion greater than my own, we may be able to get a group of lenders to take these loans on a participation basis. Frankly, I do not know whether this is realistic or not. It is my hope that someone with a greater knowledge and competence in this field will come up with an answer that will work.

The other day I was discussing this matter with the senior mortgage officer of one of our saving institutions. He told me that it was contrary to the policy of the bank to make any industrial loans at all. He said in effect they just couldn't justify risking their depositors' money in making industrial loans to local Philadelphia industries and if they were to make industrial loans, it would be only to firms with strong national credit. I get the impression that the institution holds more residential mortgages (FHA insured) in Los Angeles County than it does in the whole of Philadelphia County, and yet its depositors are all Philadelphians. Like almost all of the old eastern industrial cities, Philadelphia has a declining economy and growing unemployment. The financial welfare of our banks is inseparable and indistinguishable from the soundness of the economy of the city and the financial welfare of its people. There can be no sound economy in Philadelphia that is not based on industry. We have the tools now to create new sites for Philadelphia industry, and we know how to salvage and rehabilitate our old industrial areas. Our most difficult, unsolved problem is where to get the money to finance new industrial structures and to rehabilitate old ones.



Redevelopment progressing on all fronts: the projected Washington Square East project in Philadelphia.

# New Life for an Old Idea:

**I**F the persistency by which an idea continues to command attention is any indication of the merit of the idea, then certainly the proposal to set up a central mortgage bank warrants more than passing consideration. For the central mortgage bank is an idea that would not die. Almost a quarter of a century ago it was being widely proposed but, in the beginning, it never enlisted more than token support outside the real estate field. The National Association of Real Estate Boards had a plan for such an agency and worked hard at securing acceptance. Since then there have been many plans for establishing such a bank, or similar institution, and the variety of conceptions of what it should be and what it should do differ as widely as the colors in the rainbow.

Now something new has made its appearance, a proposal for establishing such a bank, offered by the National Association of Home Builders. And it is to be a determined effort, judging by the intensity of interest which the group is currently displaying in the idea. Joseph B. McGrath, legislative director of the Association, outlined the thinking back of the idea for a central mortgage reserve facility for home building. In many respects, he said, the proposed new facility would have some of the functions of FNMA but, with "significant added powers."

These would include the power to (1) buy mortgages, (2) be operated by an independent board, (3) rediscount or make interim loans on the security of FHA-VA mortgages, (4) supplement the operations of private pools of mortgage funds assembled through local and regional indentured trusts or similar plans, (5) it will function through a minimum stock ownership requirement, and, lastly it would set the interest rate for FHA-VA mortgages.

He said that for many years "vi-

sionary leaders of the home building industry have felt that the mortgage is an outmoded instrument for the investor, and our economy is long past due for a central mortgage facility to convert mortgages into notes and debentures attractive to the general investment market.

"Originally, the Housing Act that established FHA provided for private mortgage associations to be created for this purpose. Actually, the only one organized is the present FNMA and it is greatly changed from the original concept."

He said FNMA has paved the way for creation of a true central mortgage facility. It is capitalized for \$207,000,000 and now has approximately \$38 million additional stock issued. While its capital is too small for the central mortgage reserve facility, it does have in its management and liquidation portfolio \$2,250,000,000 worth of mortgages purchased under the old FNMA operation against which some bonds and debentures are outstanding.

"If this were transferred, together with its capital set-up, to the new central mortgage reserve facility, no additional funds would be required from the treasury."

He further explained that the sole requirement for doing business with the new facility would be a membership stock ownership requirement in a minimum amount of \$10,000 in par value stock of record and acceptance as an approved or supervised lender.

The governing board of the reserve facility would have the authority to increase this basic requirement to meet conditions which might later arise. It does not mean that this would envision a stock purchase requirement with each sale to the central mortgage reserve facility.

The facility would be operated by a board of governors supplemented by a 12-man advisory council of men

broadly representative of the home building and mortgage finance industries and the general public.

One of the key functions of the board would be to set the level of the interest rates of FHA and VA mortgages. It is anticipated that the interest rate for both FHA and VA mortgages will be set simultaneously and at the same rate based upon the conditions in the mortgage market.

The Board also would have authority to buy any FHA and VA mortgages meeting agency requirements as to size, source and age at some price under par that "will always permit the continuing direct purchases of these mortgages by investment institutions interested in mortgage investment."

Some statements—startling to say the least—are being made to buttress the contention that setting up such a facility is long overdue and must be established now if home building is to avoid the recurrent peaks and valleys of availability or funds—one of them certainly is Mr. Grath's assertion that "the mortgage is an outmoded instrument for the investors."

Nels G. Severin, immediate past president of the Home Builders Association, said home building is "living in the horse and buggy days insofar as mortgage credit is concerned."

"It won't do any good to step up to a model T system, because that won't meet the needs. We've got to go all the way up to an automatic transmission and do it fast."

Mr. Severin's successor, Carl T. Mitnick, echoed this view.

"I make no idle promise that a reform measure as fundamental as this can be accomplished in its entirety during the year ahead. I do promise that we will make every effort to reach this objective and I, for one, am highly confident that we can make substantial progress in the task of

# A CENTRAL MORTGAGE BANK

*It has intrigued many during the past quarter century and it just could experience a revival in the period ahead. Builders seem to believe that it is just what the country must have to solve the recurring problem of ample funds in some years, a shortage of funds in others. It's a project to which they have given top priority.*



establishing a central mortgage bank."

The above has been something of the background of the current movement to set up a central mortgage bank. The prospects? Nothing is going to be done this year, although it has been a subject of comment that, with the liberal housing legislation in prospect for 1959, this would certainly be an ideal year to get an idea like this across. But those to whom the idea must be sold—while not rejecting it in any sense—have had their hands full with the type of housing legislation which will be passed this year.

Congressman Rains has said that he thinks it's a good idea but doubted there would be time to pass such legislation in this session.

Senator Sparkman, always one to be reckoned with in anything concerning housing legislation, is, it would appear, not opposed to the idea but he was reluctant to do anything with it this year. Said Sen. Sparkman:

"If a central mortgage bank is to solve the problem of fluctuation, it must do two things: (1) It must increase the quantity of capital available for home loans, and (2) it must provide both a market for originators

of home loans and a market for investors in home loans.

"These functions are now embodied in FNMA as it was rechartered in 1954 and as the statute has been amended since that time. In spite of this charter, we would all agree that the Association has not served the purpose desired by supporters of the central mortgage bank.

"Why has the FNMA failed to serve this purpose? Is the law to blame? Is the Administration to blame? In my opinion, it is a little of both—with perhaps more need for change in the Administration than need for change in the law. Under the law, FNMA has two basic ways for increasing the quantity of funds for home loans—the secondary market operations and the special assistance functions.

"FNMA has power under its secondary market operations to provide almost \$3 billion of home loan capital. As of last Fall, only about one-half of this amount had been used. Under the special assistance functions, over \$400 million of authorized funds have not been made available by the President. Thus, one basic purpose of the FNMA has not been met in its full

potential because of Administration policies.

"The second basic purpose—providing mortgage markets—has likewise been thwarted by Administration policies. In my opinion, FNMA purchase prices have been set too low and its selling prices are too high. These pricing policies reduce its effectiveness as a market place for both sellers and buyers.

"Perhaps the language of the law could be cited as an excuse for these pricing policies, but an Administration dedicated to solving the housing shortage could use this same language to justify more satisfactory pricing policies. I do not question the competence or the sincerity of the FNMA officials. I merely express my opinion that there has not been a sufficient emphasis on the need for a steady flow of housing credit. The tools at hand have not been used to their full potential.

"This view does not cause me to abandon hope that something can be done. This nation *must* produce more units of decent housing than we have averaged in the last ten years. There is no domestic problem that is more urgent.

"The purposes to be served by a central mortgage bank are desirable, and these purposes must be served one way or another."

*Our position has been that a market facility needed*

MBA has taken no position on the idea of a central mortgage bank as is now being currently proposed. In the Association's Statement of Policy setting forth our view for a sound secondary market facility, it was pointed out that "in 1953, the President's Advisory Committee on Government Housing Policies and Programs concluded that there was a place for an instrumentality that could deal in insured or guaranteed mortgages. It agreed that, by buying and selling these mortgages, such an instrumentality could help to even out the seasonal and cyclical variations in the availability of mortgage funds, with particular reference to areas remote from the main centers of capital supply.

"The Mortgage Bankers Association concurs in this finding. It agrees that, if operated with restraint and with charges high enough to discourage its misuse, a secondary market facility can be an appropriate means for relieving private lenders from extreme financial losses and from preventing building activity from suffering a sudden withdrawal of credit.

"There is danger, however, that builders and mortgage lenders may be

encouraged by the availability of a relatively painless method of escape from their own indiscretions to proceed with substantial operations in advance of obtaining firm commitments from investors. Such a misuse of the facility will result in an infusion of short-term credit into the mortgage system that, under some circumstances, may have serious inflationary effects. The Association therefore accepts the principles that: (a) a secondary market agency should always exact some penalty in order to prevent its misuse and overuse, (b) it should not be used to support an artificially low level of mortgage interest rates or inherently unmarketable mortgage programs, and (c) it should involve no continuing claim on the Treasury but should provide for its support and ultimate ownership by those who benefit from it. In line with these principles, the Association asserts its conviction that the first prerequisite to a sound secondary market instrumentality is the achievement of a sound mortgage insurance system operated freely in a free financial market. The Association further recommends:

"That, to assure the independence of its operation from the mortgage insuring agency and the appropriate relationship of its operation to the fiscal and credit policies of the federal government, the Federal National Mortgage Association be reconstituted as a corporate body under the general jurisdiction of the Treasury and under

the management of a specially appointed board of directors who shall hold no other public office.

"That the powers of Federal National Mortgage Association be limited to its secondary market function, and that it not be restricted by statute in establishing the prices at which it will conduct its transactions.

*We would emphasize the purely stand-by factor*

"That the stand-by character of the instrumentality be maintained by its purchase of mortgages only at a discount and by requiring that its stock be acquired by all who sell mortgages to it.

"That any policy of providing options for the repurchase of mortgages by the sellers thereof be limited in total amount to FNMA's estimate of the growth of savings in mortgage lending institutions within a nine month option period.

"That the financing of FNMA's operations be limited to the sale of stock and to the issuance of debentures in the private market, and that no direct borrowing from the Treasury be authorized."

Are we going to get a central mortgage bank in this country? No answer—or even an indication of an answer this year—but next year may be a different story. In any event, it's an idea that you will be hearing more about.

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## President's Page

### NEW FRONTIERS AHEAD FOR THE MORTGAGE BANKER

**I** WAS in Washington during the period between the amazingly swift action of the Senate on the new housing legislation and the House consideration of its version of the measure. The occasion was MBA's traditional get-together with principal officials of the federal agencies with which our industry works most closely. The Senate bill was an astounding piece of work—a broad, highly complex bill involving many complicated activities—put together, introduced and passed in less than a month. Last year's predictions for early housing legislation certainly have been proved correct.



Walter C. Nelson

I came away from the capital with several new impressions, and added confirmation of others I had previously held. One is that there is no indication whatever that government, in the foreseeable future, will play a less important role in certain aspects of housing and housing financing than it is now doing. Such things as urban renewal, housing for the elderly, cooperative housing and other varied activities apparently have become deeply entrenched in our scheme of things; and it just makes good sense for the mortgage banker to realize that, regardless of his personal opinion, these developments are here and there is every reason to believe that they will be with us for a long time to come. There is no negative reasoning on my part in that assertion because I am convinced that, in the long run, these developments are actually new frontiers for the mortgage banker and represent new and profitable opportunities for the future.

A second impression is one entirely aside from the current headline news about housing, namely, the realization that we are still doing business within the framework of private enterprise. Many MBA members can recall the dire predictions made about the pending "socialization of mortgage lending" when FHA was established. Well, FHA is 25 years old this year and mortgage lending is still private enterprise. FHA is about as permanently established as almost any branch of government, has written a splendid record of accomplishments, has made incalculable contributions to our modern concept of home loan financing and is, in my opinion, one of the two or three best examples of private enterprise and government working together to achieve an objective that neither could attain alone.

A third general impression is that while the mortgage banker has done what is admittedly a fine job during the past quarter century—and I for one certainly believe that he has—an almost entirely new period in our industry is just beginning. It will bring new opportunities, new chal-

lenges. It will mean doing quite a bit of re-thinking on our part to meet the new responsibilities that will come our way. To meet them we must be more alert to new conditions and where necessary, abandon our old ideas and old concepts which no longer have the usefulness they once had.

Specifically, I mean urban renewal. This is sure to be a tremendous factor in our activities in the years ahead, and there is a place in it for the private mortgage lender and investor—a profitable place, as many of our own members have already conclusively proved. I suggest that every member carefully consider the broad ramifications of urban renewal, learn what 220 and 221 are aimed to accomplish, and look for opportunities in your own communities.

Specifically, I mean the newer developments coming up such as housing for the elderly. I suspect that this field is going to be far larger than most of us imagine today.

Specifically, I'm also thinking of programs now underway, such things as the Certified Agency Program and the Voluntary Home Mortgage Credit Program. The former is, in a sense—or certainly should be—the answer to proposals we ourselves have made in the past—proposals to streamline FHA, to speed up loan processing, to cut the cumbersome red tape. It has been a success, if not a spectacular one; and certainly it is something our industry wants to succeed. Yet I'm afraid that in those areas where CAP now operates many mortgage bankers have not taken full advantage of what it offers. CAP was made for the mortgage originator; it makes for speedier, more efficient and economical lending. We have a big stake in CAP's success—for purely selfish reasons if for no other.

VHMCP—everything considered, including the erratic gyrations in the money market during its existence—has also done a remarkable job. VHMCP is essentially our baby, it's the vehicle whose success can mean less and less direct lending. Yet, despite its deep significance and importance for private mortgage lending, I'm also afraid that our industry has given it something considerably less than full support. And as an added reminder: in both CAP and VHMCP, the government's contribution to success has been full, unqualified and able.

Yes, new frontiers will be facing our industry in the future, frontiers where profitable opportunities await the lender with vision, initiative and, above all, a realization that nothing remains the same for very long and the man who gets ahead is the one who moves with the times.

*Walter C. Nelson*

PRESIDENT

# PRODUCTION

## *with a new hat*

*Operating a mortgage loan business is no longer the relatively simple operation it was not too many years ago, what with the thousand and one complex problems which every day demand attention and solution. But complicated as they are, one phase of the business remains as basic as it ever was: the production of loans, because if you can't produce them you can't sell them; if you don't make the loans in the first place, you don't have the other problems. This is just what its title indicates, some thoughts about how to make Production a better and more efficient effort.*

THE production and ultimate placement of a large amount of attractive securities, from both a physical and economic standpoint, is the key to the success of any mortgage banking organization.

This is a simple fact and not meant to stir up any controversy between the importance of the many segments which make up a successful mortgage banking institution. I realize full well that real success in any field is the result of the combined efforts of every person in the organization working as a team to achieve a common goal. This may sound "corny" and may be likened to the words coming from a high school football coach, but, no matter what your analysis of success may be, you must agree that the facts which underlie success are, in most cases, as simple as I have stated. I

base my contention on the premise that production must come first—or the other sections will have nothing with which to operate.

The number one problem then is—how to achieve and maintain a high level of production. There are certain do's and don't's which anyone concerned with production must know, certain things he must do, certain attitudes he must assume and a certain perseverance he must possess if he wants to achieve success. These observations, then, will be concerned with the experience of Mortgage Investment Corporation and, more particularly, with the experience of the writer in attaining a measure of success in the production of mortgage loans. I will try to analyze how we went from a small company, servicing under \$10,000,000, to a large organi-

zation servicing in excess of \$100,000,000 in a little more than five years. I humbly give no small amount of credit to the fact that most of this feat was accomplished during a time of ample funds from investors, but I also want to stress the fact that it took a lot of hard work to put this money to work. I will try to give the reader some ideas on what I think it takes to make a good mortgage loan production man. The particular items herewith listed are by no means in the order of their importance. No one ingredient is any more important than the other—but without one the others are meaningless. I have assumed in this article that the man you are training for production work has been carefully screened to determine whether or not he has the aptitude for the job. Good production men are

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By KENNETH I. DORAN

*Vice President, Mortgage Investment Corporation, Richmond*

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not born, but are highly trained individuals in a very specialized and unique job—that of a money lender—or better still, a money salesman.

I have always felt that a mortgage loan production man was no different than any salesman on the street hawking his wares. We, like they, have something to sell—but our commodity is different. We are selling money—and we must also sell service. We have got to prove to our clients that our money and our service is much better than that of our competitors. This can best be achieved by attitude.

One of the most important ingredients a successful production man must possess is his attitude. He must prove to his client, by work and by deed, that he genuinely appreciates the business he has been given. We have all seen the shoe on the other foot: the mortgage companies which leave the impression with their clients that it is they who are doing the favor by deigning to accept a loan, or group of loans. This is an attitude which a production manager must be constantly aware of and alert to dispell in any of his men the moment it is apparent. People have always had a natural timidity towards dealing with money lenders and nothing will break down that mythical barrier any faster than a man with a friendly and willing attitude.

Attitude is important, but it is worthless if it is not closely accompanied with another important ingredient for production success—sincerity. I have told my men time and time again, "You must convince your client that his loan is the most important loan you are working on"—and you must mean it. When you analyze what has gone on behind the scene of one mortgage loan transaction, you begin to grasp the importance of sincerity to the individual applicant. A man has bought a home, maybe his first, it was an important decision for him to make. His real estate broker directed him to your office to arrange for the financing of this purchase. The broker felt it was important to use your company because his past dealings with you proved you would treat his client as an individual—with the respect and dignity due a person who has just made one of the most important decisions in his life. Real sincerity on the part of all personnel in the pro-

duction department will be the key towards attaining the goal of individuality—in your office.

I have titled this article—"Production With A New Hat." Let me ex-

interest them. I say a conversational interest, because that's all it has to be at first. Any production man who has devoted himself to doing a good job will find that the conversational in-

*"One of the most important ingredients a successful production man must possess is his attitude. He must prove to his client, by work and by deed, that he genuinely appreciates the business he has been given. We have all seen the shoe on the other foot: the mortgage companies which leave the impression with their clients that it is they who are doing the favor by deigning to accept a loan, or group of loans."*

plain further. I have, in my experience, called on many hundreds of persons in my attempt to gain new business. I've called on builders, real estate brokers and salesmen, lawyers, architects and bankers. If I have found any one thing that all these people had in common, it is that they have varied business and personal interests. No two are alike in all respects. I have always tried to gain the confidence of all my customers, both actual and prospective, by showing a conversational interest in things that

terest will soon develop into an actual interest, perhaps not a deep interest which could be time consuming, but deep enough to activate his inquisitive mind to seeking additional facts on the subject. This is a must if a man desires to gain the confidence of his prospective client. I have found that the average builder, broker, etc., is not all business and no pleasure. They naturally want to talk business but very few of them object to discussing their outside activities. If you can sense when to talk business and



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when to direct the conversation to the matter of outside interests, you will have gone a long way towards gaining both a good friend and a devoted customer.

The "new hat" theory springs from the fact that a production man may have to wear a new hat in each town where he operates. He may, as far as his customer is concerned, be a rabid football fan in one town and an enthusiastic hunter or fisherman in the next town. He may find one broker who is wild on the subject of golf, while the next person he calls on may have his entire outside interest in church work.

A good production man must be able to adapt himself, and his personality, to fit the particular situation he is facing. I do not mean to imply here that he must misrepresent himself on any or all of the outside interests of his customers. The "new hat" theory boils down to this: a capable production man must be a well-rounded, well-spoken, interesting and friendly person. He must attempt to make a friend out of a customer. His best tools to accomplish this feat are his personality and his intelligence.

The "new hat" theory works—I know. I have hundreds of customers all over the state of Virginia who I number among my close, personal friends. They must think well of me and the service our company offers, since our competitors haven't been able to make any inroads into their business.

If a production man will combine aptitude, the sixth sense in mortgage banking, with attitude, sincerity and the "new hat" theory I have mentioned, I don't see how he can be anything but successful. I don't see how he can fail to sell his clients on the fact that his is, by far, the best company to deal with, that his company will give any mortgage loan application the individual attention each broker, builder or buyer expects.

One last item I might mention is that after the initial contact has been made successfully, and business from that particular client has started to roll in—on a sustained basis—you must guard against complacency. Keeping a client satisfied so that his business continues is just as important a part of production as is all I have heretofore mentioned in this article. Most of us are prone to let our contact of a good customer slip while we work zealously to obtain new clients. The only sure fire way I have found to prevent this is to make yourself contact at least one good customer a day, preferably in person. You may have nothing to say but hello, but chances are before you leave the office you

will be of some service to him—or he to you. Try never to get into the habit of making this contact by phone. Phone contacts do not bear the results of the personal visit. Some successful organizations make their production men spend one full day a week contacting existing good customers. This may work in your organization—I don't feel it would in ours. Matters such as this should be geared to the individual organization—and worked out accordingly.

The three most important words in any production man's vocabulary should be contact, contact, contact. If you don't get out to see the customer, sell yourself and your company, there are plenty who will.



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# What's the Sales Price?

*More properly, what are all of the factors affecting the value of a property, and what evaluation should be given to each one in arriving at a figure?*

*Appraising, with the sales price as a spring board, was too often in the past something less than the scientific business it has become today.*



WITH a silly grin on his face (like a jackass eating briars), the appraiser—to use the term lightly—asked, “What’s the sales price?” With this question answered, he retreated to the well-known process of backing into the estimate of value—and collected his fee. Only those who are completely naive—or have a guilty conscience—will deny that this happens every day. Fortunately, however, the practice is on the wane.

The process of “backing into” a preconceived value conclusion is as simple as falling off a log and to many it requires no explanation; but for the benefit of the uninitiated (reference is made to single-family residences) the steps are as follows:

1. The appraiser arrives at a fair estimate of the land value, which is generally expressed in terms of so much per front foot, say, land 100'x200'@\$40 per F. F. = \$4,000.

2. He then deducts this amount

from “value” (usually sales price) and temporarily sets aside the remainder. For example, if \$16,000 is the total amount under consideration, deduct \$4,000 and there is left \$12,000 assignable to the improvements.

3. The next step involves a simple calculation of the square or cubic foot area of the structure. By simply dividing this figure into the remaining amount (\$12,000), there appears a factor which is used in that portion of the value assigned to improvements. For example, if the house has 1,200 square feet, it is quite obvious that the cost of construction is \$10 per square foot, and, therefore, the total value is expressed as follows:

Land (100'x200'@\$40)	\$ 4,000
Improvements (1,200 sq. ft. @ \$10 per sq. ft.)	12,000
Total	\$16,000

Some will argue that there is nothing really wrong with having advance knowledge of sales price, that such

information serves merely as a guide to the appraiser in his approach to the estimation of value. Come ci, come ca.

Appraising, we are taught, is not an exact science, and, therefore, value cannot be *determined*. At best, value can only be estimated with a reasonable degree of accuracy, keeping in mind that an appraisal is merely an estimate of value at a given moment in time, but a *proper* appraisal is a *supportable* estimate of value.

The solution to any appraisal problem is generally quite simple when the principles involved are clearly known. Only then can the approved approaches to value be applied, realizing that value, a mental process, is created by people, their actions, reactions, etc., without which there would be no value. It has been said that appraising is a branch of economics, the laws of which are inexorable.

By T. T. HYDE, III

Vice President, First Mortgage Corporation, Richmond



An appraiser whose opinions are worth the time it takes to reduce them to writing must develop a sixth sense which enables him to quickly recognize and correlate all of the factors affecting value. An intimate knowledge of the community, the hopes and desires of its people, is essential, and along with this the good appraiser must possess a knowledge of cost estimating. Methods of accurately estimating cost are numerous, the most common being:

1. *Quantity Survey*—used by well-informed contractors and cost estimators, an actual take-off.

2. *Unit-in-Place*—a process which results in reducing the elements of construction (wall area, supported floor, etc.) to a square-foot factor.

3. *Square and Cube Method*—based on actual knowledge and experience of building costs.

4. *Composite*—a grid system based on experience tables with adjustments.

5. *Index*—a system based on published estimates (Department of Commerce).

Location has been described as "a point on the earth's surface in relation to a cluster of human beings and human endeavors." No two locations are exactly alike. Consequently, the value of a location (land) will vary, depending on many, many factors: the proximity to undesirable property or the transition of adjacent land to other usage, such as a hospital for mentally ill, superhighway, etc.; the relative distance to schools, transportation, recreation, and shopping facilities; the adequacy of street improvements; condition of soil and subsoil; natural growth and topography; the moral reputation of the neighborhood; and threatened infiltration of ethnological groups, to mention only a few.

Good architecture has been defined as "the natural unaffected use of good materials to proper scale, related to the site, thereby creating a work of art and appropriate utility." However, decay starts the moment of completion with life expectancy varying with the structural elements, type of equipment, etc. More residences are torn down than fall down. Therefore, it is considered more important to recognize the loss of value attributable to functional and economic causes than

to physical depreciation, although it is certainly not suggested that the latter be ignored.

#### *Education is creating better appraisers*

While it's true that in some areas appraisals are still being made by "butchers, bakers, and candlestick makers," we can find solace in the fact that more and more financial institutions are emphasizing the importance of appraisal education. Courses of study under sponsorship of the Society of Residential Appraisers and the American Institute of Real Estate Appraisers attract thousands yearly throughout the country, and slowly but surely the general public is being educated to the advantages of calling on "specialists" in this field. Even so, the demand caused by our ever-increasing number of housing starts, our national highway program, etc., is such that the reservoir of trained appraisers will be hard-pressed to meet the challenge.

Attendance at the case study courses sponsored by the American Institute of Real Estate Appraisers is necessarily limited and each year several hundred individuals are turned away. Never-

theless, it's a fair estimate that attendance at these schools and those conducted on a so-called "extension" basis under the same jurisdiction has reached the 25,000 figure annually since the first course was presented at the University of Chicago in 1935. There are several thousand others taking courses in real estate appraising presented on both day and night schedules at perhaps fifty educational institutions throughout the country. It is interesting to note that various organizations and Federal agencies are sending their appraisers and their field men to these courses each year on a wholesale basis. This is especially true in connection with insurance companies, major oil companies, Corps of Engineers, Department of Indian Affairs, etc.

Whoever said, "A little knowledge is a dangerous thing," must have had appraising residential real estate in mind. On the horizon of the future, however, one can envision the day when "What's the sales price?" will more appropriately be replaced by, "What is the purpose for which the appraisal is to be made?"; and then appraisers will have reached maturity in this newest of professions.



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# Servicing Tips from the Top



A monthly department about Mortgage Loan Servicing conducted by W. W. Dwire, Citizens Mortgage Corp., Detroit, and member, Mortgage Servicing Committee

## Progress Report on Low Cost Tabulating Equipment Operation; It's About Ready

By the Editor

IN the November 1958 issue of THE MORTGAGE BANKER, your editor reported on an announcement of low cost tabulating equipment released by IBM. It was further reported that, through the headquarters office, we would undertake to design, test and package a complete mortgage accounting operation for this low cost equipment.

We are pleased to advise that considerable progress in this undertaking has been made. The necessary forms (Collection Reports, Reminder and Delinquent Notices, Arrears and Prepayment Reports, Trial Balance Reports and other necessary forms) have been designed and approved by a large number of investors. Control panels have been wired, tested and diagrammed. Tab cards have been designed and are now being printed and there only remains the writing of the detailed manual of operations before a complete "package" can be had simply by writing to the headquarters office. We then contemplate preparing an identical package for Remington Rand's economy line of tabulating equipment.

The basic "package" being developed, we believe, is economically attractive for portfolios as small as 2,000 loans and is sufficiently flexible that it can easily be modified to handle portfolios as large as 10,000 loans. It will be ready for display and demonstration at the Servicing Clinics to be held in Pittsburgh on March 18 and 19 and in Los Angeles on May 21 and 22. If you have any interest in a "slick and low cost tab installation," look us up in Pittsburgh and Los Angeles.

### Thermo-Fax Microfilm Reader-Printer

The Minnesota Mining & Manufacturing Company of St. Paul manufactures a microfilm reader-printer which, in addition to serving as a reader or viewer, will produce clear copies on 8 1/2"x11" sheets in five seconds. Those companies who use micro-filming equipment may find this new equipment of value.

—Editor

### Itinerary of Servicing and Accounting Staff Members

Immediately following the Pittsburgh Servicing Clinic March 18-19, Mr. Wasson and Mr. Murphy of MBA's Accounting and Servicing staff have scheduled consultation trips throughout MBA Region 2. Letters to all members in this region have been mailed indicating that itineraries

are now being planned for the period of March 20-April 30. This region embraces Pennsylvania, Virginia, Delaware, West Virginia and the District of Columbia.

Plans are now being made to survey Region 12 offering the consultation service during May and the early part of June. This consultation, along with the forthcoming Los Angeles Servicing Clinic, May 21-22, will assist our members in California, Arizona, Nevada and Utah with problems relative to the servicing and accounting of mortgage loans.

Members in Regions 2 and 12 will note the general areas to be covered, and the times, and if they would like to have a staff member call and examine present servicing operations, appointments should be arranged now. Members in other regions should also make inquiries now so that visits to their offices may be scheduled on consultation trips coming up during the remainder of the year.



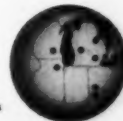
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# Memphis to Play Host at Southern Mortgage Conference, March 23-24

Second of MBA's four major mortgage conferences scheduled for 1959, the Southern Mortgage Conference will meet this year in Memphis—March 23 and 24—at the Peabody Hotel. The two-day meeting will include, in addition to the regular conference sessions, one full afternoon of workshop discussion groups.

Presiding at the Conference's opening Monday morning session will be Ernest P. Schumacher, president, Schumacher Mortgage Company, Inc., in Memphis, and president of that city's local MBA. A "Welcome to the Conference" will be given by W. C. Rainford, chairman of the MBA clinic committee, and president, Mercantile Mortgage Company, Granite City, Illinois.

The Honorable Edmund Orgill, Mayor of the City of Memphis, will extend a "Welcome to Memphis." And Miss America—1959, Miss Mary Ann Mobley, will welcome the registrants to the South.

First morning speakers will include: Raymond Rodgers, professor of banking, New York University, whose topic will be "The Monetary Outlook"; William K. Keesler, senior vice president, The First National Bank of Boston, speaking on "Where the Mortgage Banker Stands Today"; and MBA President Walter C. Nelson, president, Eberhardt Company, who

will present "Prospective Developments in the Mortgage Market."

Paul A. Nalen, vice president, The Mutual Benefit Life Insurance Company, Newark, will speak at the noon-



E. P. Schumacher



R. G. Holladay

time luncheon for all men registrants. He will discuss "The Correspondent System and the Life Companies."

Afternoon workshop sessions will begin at 2:00 p.m. and will be repeated at 3:30 p.m., thus enabling all Conference registrants to attend at least two sessions. The topics scheduled for discussion and the co-moderators, respectively, of each are:

"The Appraisal Data Files a Mortgage Banker Should Maintain"—Carey Winston, president, The Carey Winston Company, Washington, D. C.; and Robert A. Hoffman, manager of mortgages and real estate, Home Life Insurance Company, New York.

"How to Present Income Property Loans to an Investor"—Harley H. Kight, mortgage secretary, The Guardian Life Insurance Company of America, New York; and A. C. Bryan, vice president and manager, mortgage loan department, Provident Life and Accident Insurance Company, Chattanooga.

"Servicing Problems and Their Solutions"—John K. Benoit, manager, Investment Records Division, Equitable Life Insurance Company of Iowa, Des Moines; and James G. Wasson, MBA director of accounting and servicing, Chicago.

On Tuesday morning, March 24, a 7:45 a.m. breakfast and discussion meeting will be sponsored by the Young Men's Activities Committee of MBA. John F. Stone, mortgage loan

officer, Boyle Investment Company, Memphis, will preside.

The second conference session will get under way at 9:30 a.m. First speaker of the morning will be J. J. Braceland, vice president, The Philadelphia Saving Fund Society, Philadelphia, whose subject will be: "Mutual Savings Banks Investments in the South."

A panel discussion: "The Government's Role in the Housing Field" will complete the morning program. Moderated by the general counsel of MBA, Samuel E. Neel, the panel will consist of J. Stanley Baughman, president, Federal National Mortgage Association, Washington, D. C.; John M. Dervan, assistant director for loan policy and management, Veterans Administration, Washington, D. C.; and Edwin G. Callahan, deputy director, legal division, Federal Housing Administration, Washington, D. C.

R. G. Holladay, president, Marx & Bensdorf, Inc., Memphis, will preside at the Tuesday morning session.

A reception for all registrants will be held at the Peabody Hotel on Sunday evening, March 22, preceding the actual start of the Conference. Hosts will be the First National Bank of Memphis, the National Bank of Commerce and The Union Planters National Bank. On Monday evening, March 23, there will be another re-

(Continued on page 38)



Wm. F. Keesler



Walter C. Nelson



J. S. Baughman



Paul Nalen



J. J. Braceland



Raymond Rogers



Samuel E. Neel



W. C. Rainford

# Mortgage Servicing Clinic Will Meet in Pittsburgh, March 18 - 19

Built around the theme of "Servicing Spells Success," the first of MBA's two Mortgage Servicing Clinics for 1959 will be held in Pittsburgh, March 18 and 19, at the Penn-Sheraton Hotel. Merle O. Dugan, assistant cashier, Mellon National Bank and Trust Company, is the local chairman and will preside at the Clinic's opening Wednesday morning session.

The program, that morning, will feature a panel discussion on the topic: "Standardize and Coordinate Servicing." Moderated by A. A. Johnson, vice president, Colonial Mortgage Service Company, Upper Darby, Pa., the panel will consist of W. W. Dwire, vice president, Citizens Mortgage Corporation, Detroit; Joseph L. Engleman, director of mortgage servicing, Mutual Life Insurance Company of New York, New York; L. K. Horn, secretary-treasurer, Lon Worth Crow Company, Miami; Donald A. Luff, vice president and general manager, Jay F. Zook, Inc., Cleveland; Orville C. Nugent, Jr., assistant secretary, National Life & Accident Insurance Company, Nashville; August M. Strung, vice president, The Bowery Savings Bank, New York.

Other first morning speakers will include James R. Baldwin, director, public relations, National Laboratories, Inc., Toledo, Ohio, who will analyze "Personnel Relations—It's the Little Things That Count"; and David T. Bishop, president, Pittsburgh MBA; manager, mortgage loan department, Donovan Company, Pittsburgh, who will welcome the delegates to the city.

Wednesday afternoon and Thursday morning will be devoted to a comprehensive series of round table seminars. Nine separate subjects will be covered and, with two exceptions, each will be presented twice during the Clinic—thus enabling registrants to participate in a maximum of four sessions.

Subjects to be covered and discussion leaders in each instance are:

**Investor Problems and Solutions**—William F. Schreiber, comptroller, Erie County Savings Bank, Buffalo, New York; H. A. Melick, executive

vice president, T. B. O'Toole, Inc., Wilmington, Del.; William F. Welker, manager, mortgage administrative department, State Mutual Life Assurance Company of America, Worcester, Massachusetts.

**FHA and VA Delinquency Foreclosure and Claim Procedures**—Wilmer A. Pracht, vice president, W. A. Clarke Mortgage Co., Pittsburgh; with government representatives Philip



Merle O. Dugan



A. A. Johnson



James R. Baldwin



L. K. Horn



P. N. Brownstein



Joseph L. Engleman



W. W. Dwire



Harry M. Gilbert

N. Brownstein, director of loan guaranty service, Veterans Administration, Washington, D. C.; and Edwin G. Callahan, deputy director, legal division, Federal Housing Administration, Washington, D. C.

**Servicing Tips That Save**—Paul W. Quigley, president, Quigley, Inc., Wilmington; and Roger W. Hatch, vice president and treasurer, Walker & Dunlop, Inc., Washington, D. C.

**Tabulating Accounting for Smaller Servicers**—Charles L. Foley, assistant vice president, First Mortgage Company of Houston, Inc., Houston.

**Collections and Delinquencies**—D. E. Jackson, collection manager, National Homes Acceptance Corporation, Lafayette, Indiana; Frank A. Rees, associate director, John Hancock Mutual Life Insurance Co., Boston; with government representative Harry M. Gilbert, assistant loan manager, Federal National Mortgage Associa-

tion, Washington, D. C., on Wednesday. And, on Thursday, Raymond L. Davis, Jr., treasurer, Murphree Mortgage Co., Nashville; Miss Esther Levitt, vice president, Pittsburgh Mortgage Corporation, Pittsburgh.

**Office Management and Personnel Selection**—William I. DeHuszar, vice president and treasurer in charge of servicing, Dovenmuehle, Inc., Chicago; Joseph L. Engleman, Director of Mortgage Servicing, Mutual Life Insurance Company of New York, New York, on Wednesday. And, on Thursday, Lemuel J. Holt, secretary, W. A. Clarke Mortgage Co., Phila-

delphia; William H. Kovacevich, treasurer, General Mortgage Corporation of Iowa, Des Moines.

**Servicing During Processing and Closing**—Thomas A. Eastes, secretary-treasurer, James H. Pence Company, Louisville; Mrs. Barbara J. Hooper, loan servicing manager, Don J. McMurray Co., Omaha; and Richard E. Delaney, secretary-treasurer, Percy Wilson Mortgage and Finance Corporation, Chicago; Paul P. Wilson, treasurer, Schumacher Mortgage Company, Inc., Memphis.

**Escrow Analysis**—J. L. Brooks, Jr., vice President, Tharpe & Brooks, Incorporated, Atlanta; Richard B. Catton, assistant secretary, Stockton, Whatley, Davin & Company, Jacksonville, Florida.

**Insurance**—Mrs. Carol Betts Beeber, assistant secretary, American Title & Insurance Co., Miami; H. Carl Link, secretary, Murrer and

Phillips, Inc., Pittsburgh.

Thursday afternoon, March 19, will feature final discussion sessions at which the seminar moderators will be available for individual consultation. This will permit all Clinic participants to secure answers to problems or questions not covered in the regular seminar sessions or which require further clarification.

MBA President Walter C. Nelson, president, Eberhardt Company, Minneapolis, will speak at the Thursday luncheon. Taking his theme from that of the overall Clinic, President Nelson will speak on "Servicing Spells Success."

## MEMPHIS CLINIC

(Continued from page 36)

ception, also at the Peabody. Hosts will be the Kansas City Title Insurance Company, Memphis Title Company and the Mid-South Title Company.

For the ladies a full schedule of special events has been planned. They, of course, will attend both of the aforementioned receptions. In addition, a special noon luncheon for the ladies will be held at the Peabody on Monday. Miss America—1959, Miss Mary Ann Mobley, will be on hand and will speak on her experiences prior to and after winning her coveted title. That afternoon, at 3:30 p.m., a Candlelight Tea and Fashion Show will be presented at Goldsmiths Department Store, with fashions by Goldsmiths.

On Tuesday morning, at 10:30 a.m. there will be a special program for the ladies, in the Venetian Room of the Peabody Hotel, at which "Charm Tips for the Ladies" will be presented by Cathy Bauby.

A continental breakfast—hosted by the Memphis MBA—will be available for the ladies on both Monday and Tuesday mornings, from 8:00 a.m. to 10:00 a.m.

In addition to Mr. Schumacher, who is serving as chairman of the general committee in charge of all local Conference arrangements, other Memphis members serving as committee chairmen are:

John J. Heflin, Jr., Percy Galbreath & Son, Inc.—sessions and special activities committee; Richard G. Holladay and Smith Schippers, Marx & Bendorf, Inc.—attendance commit-

tee; Max B. Ostner, James E. McGehee & Company, Inc.—publicity committee; E. R. Richmond, E. R. Richmond and Co.—host committee; and R. Frank Jones, Joyner-Heard Company—transportation committee.

The ladies hospitality committee consists of Mrs. W. D. Galbreath, Mrs. Smith Schippers, Mrs. E. P. Schumacher, Mrs. W. H. Smythe, Jr., Mrs. E. R. Richmond and Mrs. Max B. Ostner.

## MBA in Education

Last month, in this publication's running recapitulation of facts and figures representative of the enrollment in the MBA School of Mortgage Banking, attention was given to the experience background—both within the industry and in business, generally—of the students. In December, emphasis was placed on the value of the School as a source of interchange for students from widely-separated sections of the country. And, back in November, the School's broad appeal—as exemplified by the wide range of positions which students hold in their firms—came under scrutiny.

Now, attention is directed to the age make-up of the students attending the School.

In selecting students for the School, it is natural if an employer asks himself first: "What age person is best suited to this program?" Each employer, of course, must answer the question in terms of his own particular operations, the qualifications of his employees, etc. But, in reviewing the age range of the School enrollees for the past year, it can be seen that there is no definitely circumscribed age limitation.

Of the 452 students registered in 1958—a figure representing the combined attendance at both Northwestern University and Stanford University—128 of these were between 30 and 34 years of age. This was the predominant age bracket. Some 105 of the registrants were younger, ranging from 25 to 29 years old; and 89 fell between the ages of 35 to 39. Fifty-four were 40 to 44 years of age; 37 were from 45 to 50 years; and there were 14 in the young age grouping of 20 to 24 years old.

Eight of the students were 50 years of age or older—a strong argument, indeed, against any erroneous assumptions that the MBA School is exclusively for the young, or younger, members of the mortgage industry. Ages of 17 others among the student body

remain unknown.

Thus, from this recapitulation, it can be seen that there is no set age group at which the School's curriculum is directed; and that it is a curriculum which has something of value to offer to all mortgage personnel—the younger, less experienced and, likewise, the older and more experienced.

» MEETINGS: This month is the time for a wave of annual meetings of local associations, among them the New Jersey, Arizona and California MBAs, followed in April by Texas MBA, Little Rock MBA and others. One of the largest is the up-coming California MBA at Coronado March 11-14. Among the speakers will be President Walter C. Nelson, Immediate Past President of NAHB Nels G. Severin, Dr. Theodore J. Kreps of Stanford University; Frazar B. Wilde, President, Connecticut General Life Insurance Company; Rear Admiral Charles F. Horne, USN (Ret.) and Vice President, General Dynamics Corporation; Dale M. Thompson, President, City Bond and Mortgage Co., Kansas City, Missouri and F. K. Duhring, Assistant Manager, American Trust Co., Carmel, California.

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## MBA Goes to Washington

It was during the intermission, the period between the Senate passage of new housing legislation and the House consideration of it, that MBA met with representatives of the principal federal agencies in Washington whose activities touch those of our industry. There was an exchange of ideas, views and opinions on all of those matters which concern the mortgage industry but the discussion also centered on the broader problems affecting the general economy—the question of federal spending and what its influence will be and the threat of further inflation. Industry-wise, the exchange of views centered on the many diverse legislative suggestions offered since Congress convened.

Those who were there:

From the White House: Don Paarlberg, special assistant to the President and Robert E. Merriam, deputy assistant to the President.

From the Treasury Department: Henry C. Wallich, assistant to the Secretary.

From the Federal Reserve System, Board of Governors: Guy E. Noyes, adviser, Division of Research and Statistics.

From the Federal Housing Administration: Wendell Edwards, Director of Field Operations.

From the Federal National Mortgage Association: J. Stanley Baughman, President.

From the Council of Economic Advisers: Karl Brandt, member and Robert C. Colwell, member of the staff.

From the Housing and Home Finance Agency: Norman P. Mason, Administrator and Richard L. Steiner, Commissioner, Urban Renewal Administration.

From the Bureau of the Budget: Roger W. Jones, deputy director; Sam R. Broadbent, chief, Commerce and Finance Division and Joseph E. Reeve, assistant chief.

From the Veterans Administration: Philip N. Brownstein, loan guaranty officer.

From the Federal Home Loan Bank Board: Albert J. Robertson, chairman; William J. Hallahan, member

Left, at the luncheon; right, Mr. Brownstein, Wendell Edwards of FHA, Donald McGregor, Houston; Ira A. Nixon of the Federal Home Loan Bank Board; and Carlton Stallard, Elizabeth, N.J.

and Ira A. Dixon, member.

From the Department of Defense: John H. Arrington, chief, Family Housing Division, Office of Assistant Secretary.

From MBA: Walter C. Nelson; B. B. Bass; Robert Tharpe; Harry Held; Carlton Stallard; Aubrey M. Costa; Donald McGregor; Martin R. West, Jr.; William L. King; Guy T. O. Hollyday; Philip Bowie; Calvert Bowie; Oliver M. Walker; Samuel E. Neel; Miles L. Colean; Frank J. McCabe, Jr.; Frank Bell; Herschel Greer and Addison Pond.

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## Other MBAs

### Jack W. Barnett Named San Diego MBA Head



Jack W. Barnett, vice president, McMillan Mortgage Co., San Diego, is the newly elected president of the San Diego MBA. Serving with him will be other newly elected officers: vice president, Keith Lister, president, Lister Investment Company; secretary, George R. Randolph, assistant secretary, W. H. Fraser Mortgage Company; treasurer, Howard T. Riffey, Bank of America, El Cajon branch; and director, Malin Burnham, vice president, John Burnham & Co.

Above, Mr. Barnett (seated right) is shown accepting the gavel of office from the retiring president, Robert Black, Palomar Mortgage Company, who will continue to serve as an ex officio member of the board. Rear (left to right) are Messrs. Burnham, Randolph and Riffey. Installation ceremonies were held in February.

In January the San Diego group presented diplomas to the first graduating class of their newly established course of study for new mortgage bankers. The 12-week course, with members of the San Diego MBA serving as instructors, was planned specifically for new personnel in the mortgage banking field to provide them a broad, general view of the industry.

### J. Kenneth Lyons Is Louisville MBA Head

J. Kenneth Lyons, vice president, Kesselring-Netherton Company, Louisville, Kentucky, is the newly elected president of the Louisville MBA. Serving with Mr. Lyons as officers for

1959 will be W. Gentry Harpole, vice president, LaCledde Bond & Mortgage Company, as vice president; Charles H. Keeling, vice president, Louisville Title Insurance Company, as treasurer; and F. Everett Warren, mortgage loan officer, The Kendall Company, as secretary.

Program chairman of the local group will be Edwin D. Horn, president, Louisville Mortgage Service Company. His committee consists of James H. Pence, president, James H. Pence Company; William O. Cowger, president, Thompson & Cowger Company; E. C. Lampe, treasurer, Citizens Fidelity Bank & Trust Company; and L. LeRoy Highbaugh, Jr., Highbaugh Mortgage Corporation.

Other committee chairmen elected include: Richard I. Beckley, secretary, The Langan Corporation—FHA committee; Charles M. Peege, executive vice president, Louisville Mortgage Service Company—publicity committee; Claude H. Harris, president, Harris Mortgage Company—entertainment committee; William J. Netherton, president, Kesselring-Netherton Company—membership-ethics-rules committee; M. B. Senn, vice president, Citizens Fidelity Bank & Trust Company—ways and means committee; J. Edward Beach, Robert Adelberg Company—attendance committee.



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## Seattle MBA Begin Effort to Reduce One Year Foreclosure Period in State to Four Months

An effort to reduce the one-year mortgage-redemption period in the State of Washington to four months will be a dominant issue before the Washington legislature this year.

The proposed change is sponsored by the Seattle MBA. It has enlisted wide support among builders, real estate, chamber-of-commerce and other business groups on the ground it will bring more mortgage money into the state and thus speed development.

H. W. Wandesforde, chairman of the Seattle MBA's legislative committee, has assembled letters from out-of-state banks, insurance companies and other lenders. These cite Washington foreclosure laws, especially the extended redemption period, as reasons for refusing to operate in this state.

Mortgage bankers say other phases of the legal process, combined with the redemption period, entail a delay of 17 months or more before a mortgagee can get a final clear title in a foreclosure proceeding.

A recent analysis of state foreclosure laws shows 24 of the 49 states provide no redemption period. States with redemption periods range from two months to two years.

In Washington the average time be-

tween initiation of the foreclosure process and expiration of the redemption period is listed as 17 months. Only two states—Alabama, which has a two-year redemption period and Kansas, one-year—involve longer delays.

In only one state, Illinois, is the cost of a foreclosure action reported as higher than the \$500 average in Washington.

In 12 states, the trust deed is in more general use as a loan instrument than the mortgage. Under the trust-deed procedure, the borrower assigns the property on which a loan is made to a trustee. The trustee has authority to transfer title to the lender if a default occurs in repayment.

The trust-deed procedure is not legal in Washington.

Insurance Co. of Oklahoma City; a director of the First National Bank at Ponca City; a trustee of the Will Rogers Council, Boy Scouts of America; a director of the Kay County Federal Savings and Loan Association; and a director of the Kay Guidance Association.

In past years, he had served as president of the Oklahoma Title As-

## Dean Hoye Elected Head Oklahoma MBA

Dean Hoye, vice-president of the Albright Title and Trust Co., Newkirk, is the new president of the Oklahoma Mortgage Bankers association.

Hoye was elected 1959 president when the organization held its annual meeting at Sequoyah state park.

Bert Hodges, of the Home Mortgage and Investment Co., Oklahoma City, was elected vice-president and Gerald Kennedy of Realty Mortgage and Sales Co., Oklahoma City, was named secretary-treasurer.

sociation and chairman of MBA's farm mortgage committee.

John A. Terrill, 56, president of the New Hampshire Savings Bank, Concord, N. H., died suddenly in February. President of the bank since 1955, he also was president of the New Hampshire Bankers Association.

At the time of his death, he was president of the Concord Regional Development Corporation; a director of the Mechanicks National Bank; and a director of the Northern Railroad of New Hampshire. He was a member of the legislative committee of MBA and of the executive council of the savings and mortgage division of the American Bankers Association.

## OBITUARIES

Roy C. Johnson, president of Albright Title & Trust Company, Newkirk, Oklahoma, died early in January, following a heart attack. He was 46 years old.

Educated in Newkirk public schools, Mr. Johnson received his formal education at the San Diego Army and Navy Academy and the University of Oklahoma. He became secretary of the Albright company in 1933 and in 1942 was elected president and chairman of the board, a position he held at the time of his death. In this executive capacity he followed his father, Roy S. Johnson, and his grandfather, C. A. Johnson, founder of the company.

Mr. Johnson, a past mayor of Newkirk, was at the time of his death chairman of the board of Southwest

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## PEOPLE AND EVENTS

**Robert J. Adams** of the Trust Company of New Jersey, Jersey City, New Jersey, has been elected executive vice president and a director of the firm,



**Robert J. Adams**

according to **Lawrence B. Carey**, president. Formerly vice president in charge of the bank's extensive mortgage and real estate portfolio, Mr. Adams will retain supervision and responsibility for that function.

He has had extensive banking and trust experience, having joined the bank in 1918. In 1935 he was appointed assistant vice president and named trust officer in 1949. He was named vice president of the mortgage and real estate division in 1952. A nationally known specialist in that field, he is a graduate of the American Institute of Banking and Graduate School of Banking, where he serves as a panel examiner on the subject of mortgage and real estate investments.

Mr. Adams is a member of the board of governors of the MBA of New Jersey. He serves on that group's legislative committee.

The promotion of **Robert N. Fitzgerald**, assistant vice president in charge of the mortgage department of Camden Trust Company, Camden, New Jersey, to the position of vice president, has been announced by **Robert J. Kiesling**, chairman of the board. Mr. Fitzgerald joined the firm in November, 1957. He had previously been with the Central Mortgage Company, Philadelphia.

**William F. Johnson** has been elected president of the Albright Title & Trust Company, Newkirk, Oklahoma. A vice president since 1953, he suc-

ceeds his brother, the late **Roy C. Johnson**. **Dean Hoyer**, a vice president of the firm since 1948, was elected first vice president.

Joining Albright's in 1951, Johnson became a vice president and assistant secretary in 1953. Active in civic affairs, he served two years as president of the Newkirk chamber of commerce. He was elected vice president of the Oklahoma Title association in 1958, after serving four years as treasurer. He is president of the Kay County Insurance Association.

Hoyer was with the Oklahoma examiner and inspectors office from 1934 to 1942, when he joined Albright's. He was resident county auditor for the state office at that time. Elected secretary-treasurer of Albright's in 1946, Hoyer was named a vice president two years later. He is president of the Oklahoma MBA.

**William M. Beale** has been elected vice president and a member of the executive committee of the T. J. Bettes Company in Houston, Texas. Mr. Beale is also executive vice president of the Admiral Fire Insurance Company in Houston.

In January, a one-day real estate mortgage loan seminar was conducted in Orlando, Florida, by **W. V. Register**, president, First National Bank of Dunedin, and **Frank W. Reed**, vice president, The First National Bank at Orlando. Sponsored by the Florida Bankers Association, the seminar was attended by 51 commercial bank representatives. It covered warehousing, construction lending, investor relations and bank mortgage records.

Greenebaum Mortgage Co., Chicago, has announced the election of **Arthur C. Youngberg, Jr.**, to its board of directors to fill the vacancy created by the death of his father, **Arthur C. Youngberg, Sr.** Youngberg, Jr., is president of Youngberg Carlson

Co., Inc., general insurance agency with offices in Chicago; Evanston, Illinois; and Los Angeles.

At the annual meeting of the Merchants Savings Bank, Manchester, N. H., **Ralph W. Farmer** was promoted to vice president in charge of the mortgage department. He has been with the bank for over 25 years. A graduate of the Graduate School of Banking, Rutgers University, he is presently the chairman of Group Five, agricultural committee, New Hampshire Bankers Association.

**R. C. Larson** has been elected president of the C. A. Larson Investment Company, Beverly Hills, California. He has been serving as executive vice president since January 1, 1951. **C. A. Larson**, president since the firm's incorporation in 1922, will maintain his office and interest with the company. He has been elected to serve as chairman of the board of directors.

**A. George Bullock** has been elected vice president of the State Mutual Life Assurance Company of America,



**A. George Bullock**

Worcester, in charge of the newly organized securities division, **H. Ladd Plumley**, president, announced. **Martin C. Brooks**, assistant treasurer and director, mortgage loan branch, has been named treasurer; **Harrison G. Taylor, Jr.**, has been named director of the securities branch and assistant treasurer and **James T. Wilcox** is director of the mortgage loan branch and assistant treasurer.

**George Rawlings**, president, announced the election of **George V. Scott**, senior vice-president, and **Hart McKillop**, vice president, to the board of directors of Lawyers Title Insurance Corporation. Mr. Scott is stationed in the Richmond home office and has been with that company since 1931. Mr. McKillop is in the Winter Haven, Florida, branch office and has been with Lawyers Title since 1936.

## INDUSTRIAL LOANS

(Continued from page 21)

Evaluation of management must be a subjective function since every company's problems are, in a sense, unique. Is there a definite plan for the future? Have they shown the ability to meet changing conditions in the industry and the economy? Are they respected by their competitors? Is theirs a recognized standing in the industry? Is their bank happy to extend short term credit and does the banker have a high regard for the team's ability? All these, and more, must be answered affirmatively and the past record should confirm these answers.

In addition, there must be a continuity in management based on competent lower echelons capable of carrying on the business in the same fashion as their superiors. Ownership should be stabilized as far as possible with arrangements for an orderly transition in the event of a principal's death. And of course the integrity of the management group must be unquestioned. Such things as sizeable loans to officers, questionable income tax procedures, and unrealistic expense accounts have no place in a well-managed company as so defined for loan purposes.

This integrity must carry over to the production end of the business as well. The products should be well made with general acceptance over a broad market. Production equipment and processes must be efficient and labor relations stable. Preferably, the company will be marketing a complete product, rather than components, through its own sales organization. The company's plants need not be new, so long as it lends itself to efficient, competitive operation.

Although the credit of the borrower is the prime consideration for a loan, certain features in the building being mortgaged will enhance the acceptability of the loan to the investor. A standard one-story industrial building of 40,000 to 80,000 square feet with 10 per cent office space, prime industrial location, ready rail and truck access, good labor market, sprinklered and with satisfactory parking provisions is the ideal security in the eyes of many loan committees. Add to this a satisfactory occupant and there is little doubt that the loan will sell. As the plant characteristics deviate from the

norm, the credit must be stronger and the loan terms more generous to compensate for the less desirable building.

In today's market for industrial mortgages, loan terms are becoming progressively more favorable for the lender. Interest rates range from  $5\frac{1}{4}$  per cent to  $6\frac{1}{2}$  per cent and may go higher. Rarely will the term exceed 15 years even on a new building, unless there is a non-cancellable lease for a longer period with a major national credit. Generally the loan amount will not exceed 60 per cent of the appraised value although  $66\frac{2}{3}$  per cent is possible. Prepayment options in the past several years have been gradually strengthened until now they resemble very closely the call features of public bond issues. In these there is usually no prepayment for at least five years. After the initial no-payment period the penalty starts at the interest rate figure and declines from  $\frac{1}{2}$  to  $\frac{1}{4}$  per cent per year. For example, if the interest rate was 6 per cent, prepayments could be made after five years at a penalty of 6 per cent of the amount prepaid in the sixth year,  $5\frac{1}{2}$  per cent penalty in the seventh year, etc. Usually tax deposits are required in addition to some of the restrictions and covenants previously discussed.

The form and number of the covenants and restrictions will depend on which investor is involved. Only experience with the various patterns desired by investors will dictate which to employ. Likewise, experience with the investors will determine which type of loan in what industries will appeal to certain outlets for industrial mortgages.

What will the investor require in the way of submittal data to consider a loan properly? The minimum needs are audit reports for at least ten years, including comparative statements or spread sheets, a complete memorandum on the company's operations, plans and specifications (if a new building is projected), and an appraisal report containing pictures and maps. Additional exhibits may include samples of the company's products, aerial photos of the area, catalogs, advertising brochures, forecasts and any other material which will assist the investment officers to obtain a complete picture of the borrower. A transmittal letter highlighting the salient points of the exhibits is most help-

ful in whetting the appetite and urging the investor to a further study of the exhibits.

After the submission is on its way comes the hardest part of the industrial loan business—waiting for the answer. Since they are normally for substantial amounts—ranging from \$100,000 into the millions, each loan engenders considerable suspense and excitement. Regardless of how well the presentation has been made, investment committees do peculiar things and there is no such thing as a lead pipe cinch in the mortgage business. But when they are accepted, the profit comes in big pieces and the servicing account mounts rapidly.

Mortgage bankers should not overlook any possibilities for production of conventional loans—and this includes industrial loans—but well before the opportunity presents itself, they should be prepared in every way to take advantage of it quickly, intelligently, and profitably.

### PERSONNEL AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

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#### MORTGAGE LOAN BRANCH MANAGERS

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#### WANTED TO BUY

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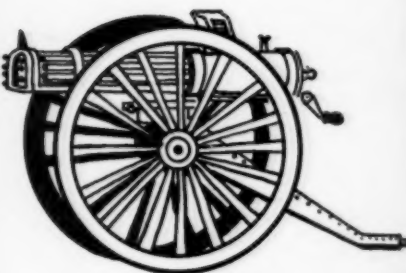
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